IDEAS ON LIBERTY

- WHO's Hidden Agenda
- Why Classical Liberals Should Love Harry Potter
- A Year at the Movies
- Capitalism and the Zero

DECEMBER 2000

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IDEAS ON LIBERTY

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PERSPECTIVE

Divide and Conquer

If I had to pick my favorite sentence in all of Ludwig von Mises's *Human Action* (a daunting task in a 900-page book), it would be this one: "The fact that my fellow man wants shoes as I do does not make it harder for me to get shoes, but easier" (p. 673 of the Third Revised Edition). That sentence may seem rather pedestrian compared to all the sentences Mises used to establish the science of praxeology (human action) and to spin out its countless implications for economics. But it's a perfect example of how Mises showed that untutored intuitions about social interaction are often wide of the mark.

There is an old school of thought, widely identified with the Reverend Thomas Malthus, but actually quite older, that held the opposite of Mises's position. Beginning with the undeniable assumption of scarcity, that school believed the human race was doomed to misery. Population would grow until it strained the carrying capacity of the environment; then starvation, disease, and conflict would set in and scale back the numbers. This process was more or less the permanent fate of mankind.

How could it not be? Growing numbers of people would be vying for limited resources. Life had to be poor, nasty, brutish, and short, though not, as Hobbes had it, solitary.

Mises was surely not the first to see it otherwise, but he was second to none in spelling out why the pessimists are wrong. He first seemed to concede their point, then zeroed in on what they missed. "The characteristic mark of the 'state of nature,'" Mises wrote, "is irreconcilable conflict. The means of subsistence are scarce and do not grant survival to all. . . . The source of conflict is always the fact that each man's portion curtails the portions of other men."

What saves man from the dismal existence of wild animals? The division of labor, the first topic taken up by Adam Smith in *The Wealth of Nations*. As Mises put it, "What makes friendly relations between human beings possible is the higher productivity of the division of labor. It removes the natural

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conflict of interests. For where there is division of labor, there is no longer question of the distribution of a supply not capable of enlargement." (Here Mises differs with Smith. Smith thought the division of labor grew out of man's "propensity to truck, barter, and exchange one thing for another." For Mises, exchange comes from the realization that gains were available from trade and the division of labor. I take Mises's side in this controversy.) Mises drives home the point: "Because many people or even all people want bread, clothes, shoes, and cars, large-scale production of these goods becomes feasible and reduces the costs of production to such an extent that they are accessible at low prices."

The upshot is that because of the productivity specialization makes possible, the rest of the animal kingdom holds few lessons for mankind. Anyone who believes government's role is to temper the market with cooperation needs to learn *that* lesson.

For more, see Wendy McElroy, "The Efficiency of Natural Rights," *The Freeman: Ideas on Liberty*, December 1997.

* * *

When the World Health Organization ranked 191 of the world's health-care systems, the United States placed an unspectacular 37th. As Twila Brase points out, serving patients was not the overriding criterion.

Does the Harry Potter phenomenon have any relevance to classical liberals? Andrew Morriss sees something in the best-selling books for lovers of liberty.

Women who are likely to be brutalized by estranged husbands too often seem to prefer that fate to a measure that could significantly reduce the chances of their becoming victims of violence. Karen Selick explains.

The movie theater is not typically a place where devotees of capitalism and individual liberty can find comfort. But as the year 2000 closes, Ray Keating revisits some of the bright exceptions that have come out of Hollywood.

Much went into the evolution of capitalism. The institutional and ideological history is rich. Yet John Hood finds that "nothing" has been ignored.

Societies are often lauded for their high savings rate and chided for their low savings rate. Things are not so simple. Christopher Lingle takes a new look at the Asian economic crises.

Should the law reward people for tattling? Environmental law and the courts do just that. Timothy Terrell says the development is ominous.

The attempt to reduce all motivation to economics seems to leave out some of the richness of human life. What about moral values? Tibor Machan and David Brown have an idea where economics went wrong.

Here's what our columnists have come up with this month: Donald Boudreaux muses on universal values. Lawrence Reed pens an open letter to statists everywhere. Doug Bandow describes the horror of the Burmese civil war. Dwight Lee demonstrates that in the name of safety, the government makes us less safe. Mark Skousen wonders how many people are on food stamps. Russell Roberts says fear not budget deficits. And Robert Murphy, hearing Michael Kinsley's doubts that markets are efficient, protests, "It Just Ain't So!"

Subjects for our book reviewers: campus illiberalism, Pearl Harbor, the National Education Association, college fluff, anti-discrimination laws, and Western tradition.

And don't miss our comprehensive annual index.

—SHELDON RICHMAN

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Thoughts on Freedom

by Donald J. Boudreaux

Universal Values

I'm writing these words on my son's first day at school. Well, really, today is his first day at *pre*-school. Thomas is only three. Nevertheless, in just a few minutes he and his mommy will walk a few blocks to the Immaculate Conception School here in Irvington, meet his teacher and classmates, and set foot for the first time in a classroom. This very day is the first of what will probably be 3,500+ days of formal education for Thomas.

He's got a long way to go, but it can be a wonderful adventure!

What will Thomas learn? What lessons will stick? What lessons will escape him? Will his teachers—today and tomorrow—be dedicated educators or will they be dilettantes or drones? Will he be taught to think or to emote? Will he be inspired to be and to do good? Or will his head be clouded with any of the countless assortments of nonsense, superstitions, and misconceptions that are forever on the loose? What values will he encounter?

Of course, all along the way Karol and I will do our best to ensure that our son receives an excellent liberal education, just as we'll do our best to instill in Thomas those values that we believe are necessary for him to live a full, productive, and rewarding life.

But will we actively try to ensure that Thomas eventually shares our *political* values? No and yes.

Parents are unlikely to meet much success if they insist that their children adopt any particular set of political values. We want our son to think for himself and to come to his political views, whatever they turn out to be, ultimately because *he* believes in them. Nevertheless, we're optimistic that if Thomas is reared and educated properly, he will share our classical-liberal values.

We have good reason to be optimistic. Classical-liberal (or, if you prefer, libertarian) political values are no more than the application to society at large, and to government, of some of the most fundamental and indispensable rules that every decent person learns early in life and adheres to until death.

What are these rules? "Keep your promises." "Tell the truth." "Don't take other people's stuff." "Don't hit other people."

These rules are among those that Karol and I and most other parents teach our little ones. Success and happiness are possible only for those who follow these rules. Anyone who refuses to follow them finds himself, at best, without friends and trading partners, and, possibly, in prison—or worse. Following these rules might not guarantee happiness, but you're guaranteed to be miserable if you reject any or all of them.

To see just how fundamental each of these rules is, ask yourself if you can imagine teaching your child the opposite: "Listen up, Johnny: whenever you see something you want, just snatch it." Or: "Jane, lying is always A-okay." Or: "Suzie, always take maximum advantage of others; keeping promises is for suckers." Or: "Timmy, it's essential that you randomly strike people

Donald Boudreaux is president of FEE.

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from time to time with your fist. That way they'll respect you!"

Clearly, civil society is possible because almost everyone abides by these obvious rules against theft, cheating, and initiating violence.

As Karol and I teach these rules to Thomas, we will emphasize that they are universal. *Everyone* should follow them; there are no excuses for transgressing them. People who do transgress these rules always deserve condemnation and, in most cases, punishment. We will emphasize that these rules apply even to politicians and other government employees—from those who work in the local courthouse to those who work in the White House. These are not rules to be applied selectively.

Indeed, insisting that government officials be held to the same standards of decent, daily behavior that we teach our children is a distinguishing feature of libertarianism. Libertarians are simply more consistent than others in respecting and insisting on basic rules of decent behavior.

In this light it is interesting to read a recent observation about libertarianism by University of Virginia government professor Colin Bird. He tries his hand at explaining the increased acceptance, over the past 30 years, of libertarian ideas. In his opinion, this success results from

> the fact that libertarianism was able to represent itself as the true heir to the liberal mainstream rather than as a revolutionary departure from Western political values. That is not to deny that libertarians often portrayed themselves as radical and even socially progressive: but at root libertarianism claims to be radicalizing the familiar (individualism, freedom, rights) rather than to be familiarizing the truly radical.*

Indeed so! Professor Bird, however, believes that radically insisting (as libertarians do) that the government be bound by all of the same basic rules of decency that bind individuals does not really render libertarians radical. As I recently wrote in this space, if by "radical" we mean consistently sticking to sound principles, then libertarians are indeed radical—and radical in a way that deserves praise.

But Professor Bird is correct that libertarians are not radical by his own implicit definition. Libertarians abhor the notion of reconstructing the world according to academic notions of how society ought to operate. The reason is that such reconstruction inevitably means that some people—those with state power—are exempted from following the basic rules of decency that we teach to our children and that all the rest of us must follow.

People empowered to do the reconstructing get to take at least some of what belongs to others and initiate coercion against those who don't cooperate with the reconstructors. And such power means that the reconstructors do not have to deal as equals with those whom they rule; the relationship between ruler and ruled is not based on voluntary exchange and contract. It's based on coercion. Mutually advantageous and voluntary exchanges are replaced by unilaterally advantageous threats of violence. The scope for promise-making and promise-keeping shrinks, while that of wielding coercive power expands.

Karol and I prefer a different route for our son. We will teach Thomas the basic values of respecting other people's persons, property, dignity, and individuality. If we succeed, our son likely will lead a prosperous and fulfilling life—and he's also likely to share his parents' ethics. □

*Colin Bird, *The Myth of Liberal Individualism* (Cambridge: Cambridge University Press, 1999), p. 139.

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IDEAS ON LIBERTY
DECEMBER 2000

Markets Aren't Efficient?

It Just Ain't So!

In his August 22 *Washington Post* piece, "What's New About This Economy?" Michael Kinsley summarizes the prevailing orthodoxy among economists:

> In the church of economic theory, as in that other church, the central symbol of the faith is a cross. Only this one is tilted and looks like an "x" not a "t." As any communicant learns early on, the x represents supply and demand "curves" (usually portrayed as straight lines). . . . [W]here the two lines cross is the blessed point of "equilibrium," where the price is exactly what is needed for supply to equal demand. At that point markets clear, utility is maximized, lions are beaten into plowshares, bread walks on wine, and so on.

Kinsley then makes a remarkably brave confession: "Having been inducted into the faith in college, I'm a fairly devout believer in the basic doctrines. But I have always been troubled by doubts on one item: In my innermost heart, I wonder if the supply curve really slopes upward. (There, I've said it.)"

Those of us who have been excommunicated from the mainstream must applaud Kinsley's courage. He recognizes, as we do, the utter absurdity of the doctrine of entrepreneurial infallibility. Kinsley is perfectly correct to challenge the standard assumption that marginal costs always rise. But that's not the half of it.

The *really* radical response to the neoclassical practice of drawing all sorts of elegant cost curves is *not* simply to wonder whether they rise. The first question must be: What are these curves supposed to mean? They do not accurately describe the decision-making process of real businesspeople; nor do these unrealistic models make accurate predictions. The entire enterprise of modern mainstream economics can only offer a simplified analogy to the real economy in hopes that the study of this theoretical world can offer us insights into the real one.

It is a common mistake to say that economics is about money. As such, when people talk about the "marginal cost" of production, it is believed that this refers to the dollar amount spent on raw materials, labor, and so forth. But *cost* is the value of opportunities forgone, and it is always estimated in an *ex ante* sense; cost is never "realized." A woman chooses one out of many competing suitors. The benefits of her choice are clear enough. But the costs are *not* the money spent on the wedding and dowry—these would have been spent anyway if a different man had been selected. Rather, the true cost is the subjective value she places on a lifetime spent with the next best suitor. It is clear that this value will never be known, for it is a lost opportunity; a fortiori, no outsider can calculate it.

After his confession, Kinsley elaborates further on neoclassical theory. In a competitive market, price equals marginal cost. (If it were higher, a rival would cut prices to capture the entire market, and if it were lower, firms would make more money by restricting production; only when P=MC is everyone happy.) Marginal costs have to be rising "to avoid the embarrassment of supply and demand curves that never cross." Further, at the point where supply and demand intersect, it had better be the case that marginal cost exceeds average total cost—otherwise the firm would be losing money. Kinsley finally gets to his point: "[T]he news these days is full of controversies where the basic problem is that marginal costs do not rise. They start out below average cost and stay that way."

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Already the reader should be skeptical. When someone laments that costs are not higher than they already are, chances are this person is drawing an illegitimate conclusion from an economic model. (This same phenomenon occurs when critics lament that Microsoft did not charge *enough* for its browser. These people are afraid of low prices, just as Kinsley is afraid of low costs.) Airline seats, says Kinsley, are a good example of this: Once the first 20 seats have been sold, it costs the airline virtually nothing to sell the 21st seat. But clearly each person can't be charged *this* marginal cost, for the *average* cost of an airline seat is much higher.

One wonders what the big fuss is about. Kinsley himself acknowledges the airlines' solution: Charge different amounts for the "same" seats. On any given flight—even restricting ourselves to those flying coach—each passenger does not pay the same price for his or her seat. Already we have abandoned the world of neoclassical models, where P is uniform. Moreover, the seats really aren't the "same" good; those who bought their tickets well in advance presumably paid much less since, unlike those who procrastinate, they were willing to forgo flexibility and commit to a certain date. Taken to the other extreme, discount theater tickets are always available to those who forgo the luxury of knowing which show they will actually attend that night.

Most of the problems Kinsley raises are due to the necessity of avoiding the "embarrassment" of disequilibrium. But whenever a plane, bus, or subway has empty seats, that's a surplus, or glut, in the neoclassical's book. As one who frequently uses public transportation, I can attest that I am absolutely delighted by disequilibria. And the owners are not hurt either. It is true that they would prefer to sell all the seats at a high price, but the demand is lacking. If the choice is between "clearing the market" (selling all seats) at a low price, and leaving a few empty at a higher price, which earns them greater profits, it is quite likely the airlines will adopt the latter strategy.

Kinsley believes the features of the New Economy "[undermine] the case for a free market." By this he undoubtedly refers to the mainstream definition of efficiency: If there exists a technologically feasible alternative arrangement of society's economic affairs, an arrangement that is *unanimously* preferred to the current arrangement, then the status quo is "inefficient." But this definition tells us nothing about how to improve the situation. Indeed, all the "market failure" literature teaches us is that if certain industries behaved in the way assumed in the various models, then we could logically imagine the world being a better place. Any argument that uses these results to justify government intervention is a complete non sequitur.

Such condemnations of the free market are even more dubious when it is realized that these models do not at all capture the ingenuity and resilience of unshackled entrepreneurs. Low marginal costs were no problem for Sam Walton or other founders of wholesale clubs, in which the customer pays a flat membership fee for the right to purchase goods at huge discounts.

Kinsley is right to challenge the realism of mainstream economics. But he must realize that the problems of "the one true faith" (as he calls it) run far deeper than he has imagined. □

—Robert P. Murphy
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WHO's Hidden Agenda

by Twila Brase

The World Health Organization (WHO) didn't blink twice before shooting down the United States' world-class health-care system. In a recently released report, "The World Health Report 2000—Health Systems: Improving Performance," the WHO ranked the overall performance of the U.S. health system at 37th out of 191 countries surveyed.

In fact, for a study purported to be a "balanced judgment" of the world's health systems, the WHO waited only until the third paragraph of a six-page press release to herald its conclusion that the United States' system did poorly in the evaluation. Published in June, the WHO's "first ever analysis of the world's health systems" listed America well behind first-ranked France, second-ranked Italy, and various other European, Middle Eastern, and Asian countries.

At gut level, this assertion rings false. When was the last time someone chose France or Italy over America for health care? How about the third-place little island of San Marino? Since the U.S. ranking fails to correspond with the documented practice of foreign patients' flocking to the United States for care, a brief description of the report's terms is required.

A health system, according to the WHO, is quite inclusive. Not only does it include the doctors, clinics, and hospitals that deliver patient care, but also "all the organizations, institutions and resources that are devoted to producing health actions." Government oversight functions, public health activities, personal health dollars, and health-care financing schemes are all part of the system.

In addition, the WHO adds goodness and fairness to the traditional service objectives of a health system. High-performing health systems should not only deliver health-care services, but also be responsive to patient expectations and provide equal treatment to all patients irrespective of finances or social status. With these goals in mind, the WHO's critical measure of a health system's performance was its "achievement relative to resources."

The World Health Organization primarily faults the United States for not requiring mandatory insurance or offering social welfare programs to all citizens—in other words, for being a free country with independent citizens. Given America's high level of health-care spending, the U.S. system does not achieve the organization's fairness and distribution goals relative to total health-care resources. In addition, the report criticizes the move toward medical savings accounts and the fact that 56 percent of America's health-care expenses are privately funded.

Interestingly, the WHO completely failed to broadcast that America's health system ranked first in responsiveness to patients' needs for choice of provider, dignity, autonomy, timely care, and confidentiality. In other words, where it matters most to patients, the U.S. system excels.

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Since health-care systems are created solely to meet the needs of patients, it seems only natural to assume that responsiveness would receive top consideration when judging performance. Yet, first-ranked France ranked only 16th or 17th in responsiveness, while second-ranked Italy ranked 22nd or 23rd. Oman was given a ranking of eighth in performance, but only 83rd in responsiveness to patients. And Morocco, ranked 29th in performance, was ranked at 151–153 in responsiveness—near the bottom of the list.

According to the WHO, America did not even outperform Canada, which received a performance ranking of 30th despite the regular visits of Canadians to American hospitals and doctors. Surprisingly, the Netherlands, known for involuntary euthanasia—a less than patient-friendly policy—was rated 17th best, 20 countries higher than the United States.

WHO's Global Agenda

Because the World Health Organization took great pains not to announce publicly that the United States took grand prize in patient care, there is reason to believe its public chastisement has little to do with America's quality and delivery of health-care services.

Indeed, the criticism appears to be aimed at furthering redistribution of American dollars around the globe. The WHO claims governments are responsible for "mobilizing the collective action of countries to generate global public goods such as research, while fostering a shared vision towards more equitable development across and within countries." In addition, the WHO's overall mission is "the attainment by all people of the highest possible level of health, with special emphasis on closing the gaps within and among countries."[1]

The WHO writes that its vision includes "placing health at the centre of the broader development agenda," most likely through financial transfers from countries with greater resources. It is not surprising then to find the WHO report promoting centralized collection, pooling, and redistribution of health-care funds—and chastising countries that fail to march in step with collectivist thinking.

That this centralized approach requires health-care rationing to vulnerable, sick, disabled, elderly, and politically disenfranchised citizens does not bother the WHO, an unabashed supporter of explicit rationing. WHO officials describe rationing as central to their emerging vision of "new universalism": "Rather than all possible care for everyone, or only the simplest and most basic care for the poor, this means delivery to all of high-quality essential care, defined mostly by criteria of effectiveness, cost and social acceptability. It implies explicit choice of priorities among interventions, respecting the ethical principle that it may be necessary and efficient to ration services, but that it is inadmissible to exclude whole groups of the population."[2]

To enforce the necessary limits on health-care services, the report suggests that physicians and other practitioners be monitored through data collection, and if necessary sanctioned for providing patients with care classified as unnecessary or impermissible. Noting that practitioners are difficult to control, the WHO advocates the creation of a national benefit package with lists of available health-care treatments. The lists, coupled with practitioner-control mechanisms such as clinical protocols, registration, training, and licensing and accreditation processes, can then be used to enforce health-care rationing.

Collectivist Control

Besides the organization's draconian promotion of global health-care rationing, the drive to cultivate collectivist health care can be seen through a subtle deviation from typical terminology. The WHO premises its report and assessment on comprehensive "health systems" organized by government bureaucracies rather than "health-care systems" comprised of individual providers treating individual patients. Private funding by individuals and the private practice of medicine are assiduously discouraged throughout the report.

In these health systems, governments are to assume the crucial role of "stewardship" to enforce "rational" use of health-care ser-

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vices. Governments are thus called on to collect health-care funds from citizens, set and direct health policy, define allowable health-care services for citizens, and provide oversight.

Because system-wide control of health-care resources is desired, WHO officials express particular distaste for America's abundance of private financing for health care (56 percent) and Congress's advancement of medical savings accounts (MSAs) for individual provision and payment of health care. Although they acknowledge that MSAs are a form of prepayment—the pooling mechanism they aggressively support—they assert that MSAs and private funding prevent centralized pooling of dollars without which certain public health initiatives may never be funded.

In addition, they argue that individual financing fosters fee-for-service payments—as if paying for the care you need at the time you need it is ill-advised—and makes it difficult to regulate and control the treatment practices of providers—a blessing to patients who value unrationed care.

Ironically, the report attempts to discredit MSAs for performing the insurance function insurance is meant to perform. WHO officials are displeased that "the healthy and the young, whose risk is usually low, might prepay for a long time without needing the services for which they had saved."[3]

WHO's System of Control

According to the report, the control of health-care spending should be placed in the hands of bureaucrats through mandatory and pooled prepayments for health-care services. Each household's prepayment could be based on a defined percentage of the income that remains after anticipated food expenses are subtracted from total household income. These prepayments would then be collected using employment-based insurance schemes, direct taxation, or social security programs.

Prepayment is key because it facilitates decisions about spending limits. As prepayment rises, "spending is more and more determined by the policies and budgets of public entities and insurance funds." But when health care is financed privately, WHO officials note with dissatisfaction, the level of financing is decentralized as a result of "millions of individual decisions"—a situation the WHO apparently wants to avoid to keep its agenda intact.

Not only does the WHO desire prepayment, it wants fairness throughout the system. But its definition of fairness emphasizes equitable distribution of services, not necessarily related to individual needs for services. As the report clarifies, "If services are to be provided for all, then not all services can be provided."[4] According to the report, the level of annual health-care funding available to patients is to be determined once funds are pooled and priorities are set.

Fairness is also strongly advised for financing strategies. As noted in the report: "the risks each household faces due to the costs of the health system are [to be] distributed according to ability to pay rather than to the risk of illness."[5] Therefore, those with higher incomes are to contribute more than those with lower incomes, regardless of lifestyle choices or behaviors. Indeed, the WHO declares, "Fairness of financial risk protection requires the highest possible degree of separation between contributions and utilization."[6]

The organization's skewed view of equity is seen most clearly in its contention that wealthy citizens must prepay more for health care than poor citizens because left to their own resources, a greater percentage of the poor family's income goes to health care than that of the wealthy family. Lest we forget, this is the case for any purchase made by one person who earns less than another person. If one man earns $100,000 and another earns $10,000 and both want to buy a $1,000 used car, the cost is ten percent of the lower income but only one percent of the higher income. Following the organization's line of reasoning, why stop with health care? If such "fairness" can be required in one type of purchase—health care—it can be mandated across all purchases of social value.

WHO officials have become present-day Robin Hoods, declaring that individuals have no right to keep what they earn. To rationalize their position, they dismiss real fairness—the

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ethic inherent in earning, keeping, and controlling the fruits of one's own labors—in exchange for a perverted description of fairness that fits their own need for control.

Banking on America

Although never stated directly, the WHO's baseless criticism of the U.S. health-care system appears to be an attempt to pressure America's policymakers into commandeering a larger share of Americans' health-care dollars for contribution toward global and public health initiatives around the world.

It is also entirely possible that improved health care is not the primary goal of countries seeking the American dollar. The other 190 member countries of the World Health Organization may view dollars designated for health care as a meal ticket for purchases not directly related to medical services. After all, it can be reasonably argued that improved roads, schools, environment, transportation, and agriculture all positively affect health.

Clearly, WHO officials have an agenda that is neither patient-friendly nor protective of individual freedoms cherished by American citizens. Given the opportunity, they would readily place control of every person's earnings and every patient's care into a few powerful hands.

American taxpayers pay over $96 million per year to the World Health Organization—roughly 25 percent of its general budget.[7] Rather than dignifying the WHO report with further self-evaluation, Americans should question congressional support of this organization, which insufficiently understands and respects the constitutional freedoms that have made the U.S. health-care system number one with patients around the world. □

1. World Health Organization, "The World Health Report 2000," "Overview," June 21, 2000.
2. Ibid.
3. Ibid., "Who Pays for Health Systems?" p. 99.
4. Ibid., "Overview."
5. Ibid., "How Well Do Health Systems Perform?" p. 35.
6. Ibid., "Who Pays for Health Systems?" p. 97.
7. Telephone interview with Nelle Temple Brown, external relations officer, World Health Organization Liaison Office, Washington, D.C., July 26, 2000.

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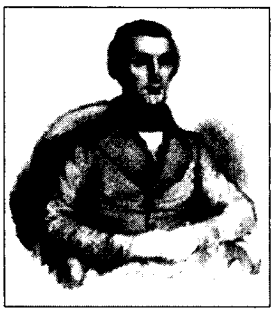

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IDEAS ON LIBERTY
DECEMBER 2000

Why Classical Liberals Should Love Harry Potter

by Andrew P. Morriss

As anyone with children can tell you, the Harry Potter books by British author J. K. Rowling have taken the world by storm. Now in its fourth installment, this series of stories about the education of a young British wizard at Hogwarts School of Witchcraft and Wizardry is wildly popular with children and adults alike. Harry made the cover of *Newsweek*, prompted the redesign of the *New York Times* bestseller list (authors of adult books complained that the Potter books were occupying too much room at the top of the list), jolted the publishing industry (Americans buying the books from Amazon.co.uk forced the U.S. publisher to alter its publication schedule), prompted attempts to remove the book from schools (some religious parents objected to the depiction of witchcraft as wholesome), and upset critic Harold Bloom (he didn't think the books lived up to *The Wind in the Willows*).

The Potter books are, despite Bloom's criticism, great fun to read. Rowling is also the best known "welfare to work" story I've heard in quite some time. The first book was written (supposedly on napkins) in coffee shops in Britain while the single mother was on welfare—she's now obviously become quite wealthy. But those aren't the reasons classical liberals should love these books.

Contributing editor Andrew Morriss is Galen J. Roush Professor of Business Law and Regulation at Case Western Reserve University and a senior associate at the Political Economy Research Center, Bozeman, Montana.

First, for those who have somehow missed the stories, here is the plot in a nutshell. Harry Potter was orphaned as an infant when the evil Lord Voldemort killed Harry's parents while attempting to use his magical powers to take over the world. Harry then spent his first ten years living with his thoroughly repulsive Muggle (nonmagical) Uncle Vernon, Aunt Petunia, and cousin Dudley Dursley. Then Harry was whisked away to Hogwarts to begin a seven-year education, although he still spends summers with the Dursleys. Along the way, Harry makes friends with other wizard kids, battles Lord Voldemort, plays an exciting wizard sport called Quidditch for his house team, and learns about the ways of wizards. Telling you more would spoil the books.

Classical liberals should love Harry Potter because there are three strikingly classical liberal features of the wizarding world. The first is its banking and monetary system. Really. Wizards do not use ordinary English fiat currency, instead their money supply is based on precious metals. Gold Galleons, Silver Sickles, and Copper Knuts are the basis of wizarding commercial transactions. And there are lots of those transactions—despite their powers, wizards must buy most of the things they need from the private sector. Wizards keep their money in Gringotts, a private bank run by goblins who are quite ruthless in protecting the money entrusted to their care.

The second classical liberal feature is the extent to which commerce is presented favorably. True, Uncle Vernon's business career,

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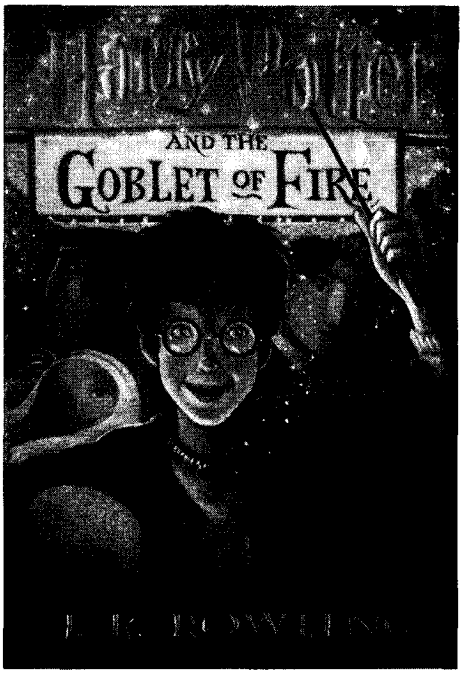
like everything else about Uncle Vernon, is not exactly gripping stuff. But the most exciting places in the wizarding world are Diagon Alley, the wizard shopping zone in London, and Hogsmeade, the only all-wizard village in England, which is crammed to the gills with fascinating shops. Harry's friends, George and Fred Weasley, aspire to open a shop themselves, selling wizarding jokes, rather than follow their brother and father into government. Sporting broomsticks are manufactured competitively, and new models are brought out as regularly as new cars are in the Muggle world.

Small Government

Most important, however, is the role of the government. Wizards don't have much to do with Muggles, and so most of the British government has little relevance to the lives of wizards—truly a fantasy situation. Nonetheless, there is a Ministry of Magic, headed by a wizard minister. What is amazing—remember these are books by a former welfare mother—is that the ministry does almost nothing. Its primary focus is preventing Muggles from figuring out that there are wizards living among them—allowing the wizards to live in peace. No anti-discrimination laws, no quotas for magical folks—just memory charms to make Muggles who stumble on the wizards forget they are there.

The ministry does do some other things. It runs Hogwarts school, more or less as a charter school with control firmly vested in a board of governors and the headmaster. It helps stage international wizard games and competitions. It investigates and eliminates dangerous magical creatures. It runs a wizarding prison, albeit indirectly by contracting with shadowy beings called "dementors." When it does anything more, like investigate the thickness of foreign cauldron bottoms, it is held up to ridicule by the book's characters.

Moreover, it doesn't do most of these things particularly well. The minister for magic, Cornelius Fudge, is a pompous buffoon, more concerned about preserving his job than the safety of the public. Lower level ministry officials break rules to favor their own interests,



including one who sneaks a relative out of prison and so unwittingly aids in the return of Lord Voldemort. Indeed, judging from these books, Rowling seems to have a firm grasp of the basics of public choice theory.

That's pretty much it. There is no Department of Wizard Welfare, no minimum wage for wizards, no safety commission for magical charms. There is plenty of opportunity for such stuff—Harry's friend Ron comes from a poor wizard family and must make do with secondhand clothes and wands, but his family doesn't receive any government assistance. The most recent book comes closest to touching on a potential issue of political correctness: One of Harry's friends takes up the cause of house elves, magical creatures who live to serve. She campaigns for a living wage and an end to their serfdom, but finds few elves or wizards who are interested.

The bad guys are going to seem familiar to classical liberals too. Lord Voldemort is a ruthless killer, a thoroughly evil wizard who relishes torturing and killing his victims and allies alike. There's no justification for his behavior, no explanation that he was misunderstood as a boy or mistreated at school. It is Voldemort's ambition and his ambition alone that leads him to attempt to take over the

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world. This is a villain classical liberals can love to hate—a power-mad, evil leader whose goal is to reduce the world to slavery.

The heroes are people we can cheer about too. Albus Dumbledore, the powerful wizard headmaster of Hogwarts, is a great guy all around. At the end of the fourth book he gives a speech to the students that ought to make most classical liberals applaud. Telling the students about the return of Lord Voldemort, the evil lord's killing of a Hogwarts student, and the government's refusal to acknowledge it, Dumbledore asks the students to stand up to evil as individuals: "Remember [the dead student].* Remember, if the time should come when you have to make a choice between what is right and what is easy, remember what happened to [the student], who was good and kind and brave, because [the student] strayed across the path of Lord Voldemort."

These books are not, however, junior versions of *Atlas Shrugged*. There is no overriding message of liberty, or anything else that I am aware of, in the books. And perhaps I am reading a bit much into them. After all, the Harry Potter books are first and foremost well-written escapist fantasy about kids being kids. But I think it is important that such popular stories are set in a society that we would recognize as having classical liberal features. All those kids growing up with Harry Potter are, after all, left with a vision of a world in which the government plays a strikingly small role. And that's quite magical. □

*The major mystery in the book is who is killed. I won't spoil it by using the student's name.

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IDEAS ON LIBERTY
DECEMBER 2000

An Open Letter to Statists Everywhere

Dear Statist Friends:

I know, I know. You're already objecting to my letter. You don't like the label "statist." You don't think of yourselves as worshipping government; rather, you think of yourselves as simply wanting to help people, with government being your preferred means to achieve what is usually a very worthy end. "Statist," you say, is a loaded term—a pejorative that suggests an overweening, irrational kinship with the state.

Well, let's wait and see how the term stacks up after you've read my whole letter and answered its questions. Meantime, if you have any doubt about whether this missive is directed at you, let me clarify to whom I am writing. If you're among those many people who spend most of their time and energy advocating a litany of proposals for expanded government action, and little or no time recommending offsetting reductions in state power, then this letter has indeed found its mark.

You clever guys are always coming up with new schemes for government to do this or that, to address this issue or solve that problem, or fill some need somewhere. You get us limited-government people bogged down in the minutiae of how your proposed programs are likely to work (or not work), and while we're doing the technical homework you seldom do, you demonize us as heartless number crunchers who don't care about people.

Sometimes we all get so caught up in the particulars that we ignore the big picture. I propose that we step back for a moment. Put aside your endless list of things for government to do and focus on the whole package. I need some thoughtful answers to some questions that maybe, just maybe, you've never thought much about because you've been too wrapped up in the program du jour.

At the start of the 1900s, government at all levels in America claimed about 5 percent of personal income. A hundred years later, it takes more than 40 percent—up by a factor of eight. So my first questions to you are these: Why is this not enough? How much do you want? Fifty percent? Seventy percent? Do you want all of it? To what extent do you believe a person is entitled to what he (or she) has earned?

I want specifics. Like millions of Americans planning for their retirement or their children's college education, I need to know. I've already sacrificed a lot of plans to pay your bills, but if you're aiming for more, I'm going to have to significantly curtail my charitable giving, my discretionary spending, my saving for a rainy day, my future vacations, and perhaps some other worthwhile things.

I know what you're thinking: "There you go again, you selfish character. We're concerned about all the people's needs and you're only interested in your own bank account." But who is really focused on dollars and cents here, you or me?

Lawrence Reed is president of the Mackinac Center for Public Policy (www.mackinac.org), a free-market research and educational organization in Midland, Michigan, and chairman of FEE's Board of Trustees.

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Why is it that if I disagree with your means, you almost always assume I oppose your ends? I want people to eat well, live long and healthy lives, get the prescription drugs and health care they need, etc., etc., just like you. But I happen to think there are more creative and voluntary ways to get the job done than robbing Peter to pay Paul through the force of government. Why don't you show some confidence in your fellow citizens and assume that they can solve problems without you?

We're not ignorant and helpless, in spite of your many poorly performing government schools and our having to scrape by with a little more than half of what we earn. In fact, give us credit for managing to do some pretty amazing things even *after* you take your 40 percent cut—things like feeding and clothing and housing more people at higher levels than any socialized society has ever even dreamed of.

This raises a whole series of related questions about how you see the nature of government and what you've learned, if anything, from our collective experiences with it. I see the ideal government as America's founders did—in Washington's words, a "dangerous servant" employing legalized force for the purpose of preserving individual liberties. As such, it is charged with deterring violence and fraud and keeping itself small, limited, and efficient. How can you profess allegiance to peace and nonviolence and at the same time call for so much forcible redistribution?

Don't invoke democracy, unless you're prepared to explain why might—in the form of superior numbers—makes right. Of course, I want the governed to have a big say in whatever government we have, but unlike you I have no illusions about any act's being a legitimate function of government if its political supporters are blessed by 50 percent plus one of those who bother to show up at the polls. Give me something deeper than that, or I'll round up a majority posse to come and rightfully claim whatever we want of yours.

Why is it that you statists never seem to learn anything about government? You see almost any shortcoming in the marketplace as a reason for government to get bigger but you rarely see any shortcoming in government as a reason for it to get smaller. In fact, I wonder at times if you are honestly capable of identifying shortcomings of government at all! Do we really have to give you an encyclopedia of broken promises, failed programs, and wasted billions to get your attention? Do we have to recite all the workers' paradises that never materialized, the flashy programs that fizzled, the problems government was supposed to solve but only managed into expensive perpetuity?

Where, by the way, do you think wealth comes from in the first place? I know you're fond of collecting it and laundering it through bureaucracies—"feeding the sparrows through the horses" as my grandfather once put it—but tell me honestly how you think it initially comes into being. Come on, now. You can say it: *private initiative*.

I've asked a lot of questions here, I know. But you have to understand that you're asking an awful lot more in blood, sweat, tears, and treasure from the rest of us every time you pile on more government without lightening any of the previous load. If anything I've asked prompts you to rethink your premises and place some new restraints on the reach of the state, then maybe the statist label doesn't apply to you. In which case, you can look forward to devoting more of your energies to actually solving problems instead of just talking about them, and liberating people instead of enslaving them.

Sincerely,
Lawrence W. Reed

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IDEAS ON LIBERTY
DECEMBER 2000

They're Just Dying to Be Rescued

by Karen Selick

BELLEVILLE, ONTARIO, CANADA—Why don't abused women want to defend themselves?

Three times within the past year, and many times previously, I have been consulted in matrimonial cases by women who have told credible and terrifying stories of violence, stalking, and death threats on the part of their estranged spouses. In each case, it was quite plausible that the woman would someday become a statistic—just another one of the several dozen Canadian women who are murdered each year during the course of separation or divorce proceedings.

We discuss her options. A peace bond. A restraining order. Moving away and changing her name. Settling the case his way. Laying criminal charges. Seeking a firearms prohibition order. I try to give her realistic, practical advice. None of these standard "solutions" will guarantee her safety, and I don't want a false sense of security to increase her danger.

Peace bonds and restraining orders are just pieces of paper, I point out. Anyone who's determined to commit murder won't be deterred by the thought that he's breaching a restraining order in the process.

Moving away might work sometimes, but not if the case involves children to whom the threatening spouse has court-ordered access. Going underground would violate the court order. Besides, it's not easy to give up a job, a home, friends, and family.

Give him his way? If you surrender to extortion once, the demands would never end.

Lay criminal charges? She might get a brief respite while he was in jail, but his desire for revenge could make things even worse later.

Get his hunting rifles taken away? That's like shooting a grizzly bear with a slingshot—it'll just make him angrier. And if she thinks he won't know how to buy another gun on the black market, or how to manufacture one in his metal shop, she's led a very sheltered life. Besides, a knife or a baseball bat can make her just as dead.

Taboo Suggestion

This year I finally decided to suggest another option—one so taboo in today's political climate that I have always hesitated to propose it before, for fear the client would think me insane. I asked my clients whether they would be interested in taking firearms safety training and applying for a permit to carry a gun for self-defense.

It's not that I believe they'd actually be granted one. My discussions with firearms experts over the years have led me to believe that even though Canadian law provides for such permits, very few are issued. The most likely outcome of such an application would be a test of the law.

However, that quickly became a non-issue, as each of the three women recoiled in alarm at my suggestion. Oh no, they said unani-

Karen Selick is an attorney and a columnist for Canadian Lawyer. *Copyright 2000.*

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mously, I'd be afraid to own a gun. I'll just call the police if he shows up.

Right, I thought to myself, just like Doreen Leclair and Corrine McKeowen did. They were the Winnipeg sisters who in February called 911 five times in one night to report that one woman's former boyfriend was breaching a restraining order. They were found stabbed to death in their home shortly after their last call.

But the failure of police to respond in time to save these two women is hardly a unique occurrence. In a cursory search of the Canadian Press database for 1998 and 1999 alone, I was quickly able to unearth ten other instances, from Kamloops to Sydney, where innocent people had been murdered waiting for police to respond to their frantic 911 calls.

This phenomenon is the subject of Virginia lawyer Richard W. Stevens's book *Dial 911 and Die*. (See also his April 2000 article in *Ideas on Liberty*.) Stevens outlines case after case in which police have been found not liable to citizens (or their estates) for egregious negligence in failing to respond to 911 calls. Yet in many places (including Canada), citizens are also prevented by gun-control laws from taking the most effective remedy available for their own defense: keeping an appropriate firearm and ammunition readily accessible.

And in Canada, as my clients demonstrated, widespread propaganda portraying guns as instruments of unadulterated evil has actually brainwashed potential victims into not even wanting to try to save themselves. They're just dying to be rescued, I guess.

I'd love to donate copies of Stevens's book to women's shelters across the country, together with another book, *The Best Defense* by Robert A. Waters. Together, these two volumes contain dozens of heart-pounding true stories of ordinary citizens—some elderly, some teenagers, some in wheelchairs, many female—who have saved their own or other people's lives by being armed with a gun.

Those who campaign for gun control always use the argument that their proposed restrictions on the freedom of law-abiding citizens are worth it even if they save "only one life." By this reasoning, private gun ownership, with its proven record of saving lives, is unquestionably worth it. □

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IDEAS ON LIBERTY
DECEMBER 2000

A Year at the Movies

by Raymond J. Keating

It's been decades since Hollywood regularly produced films celebrating such notions as liberty, individualism, and hard work. However, a few exceptions periodically make it to local movie theaters. Indeed, 2000 turned out to be a relatively good year for watching individuals take risks and fight tyranny on the silver screen.

In *Gladiator,* for example, Russell Crowe plays a Roman general named Maximus. He not only is a great soldier and warrior, but also is faithful to God, family, and his emperor. His desire after winning the latest military victory is to return to his wife, son, and farm. The filmmakers make a point of clearly noting that Maximus is a man uncorrupted by politics.

However, Maximus's life is shattered when Commodus, the emperor's son, murders his own father to gain power and has Maximus's family butchered. Maximus avoids death himself, but is made a slave and forced to fight as a gladiator.

Commodus, who longed for political power throughout his life, stands out as a glaring example of governmental tyranny and corruption. He is ruthless, perverse, and manipulative, and does not govern according to principle, but instead appeals to the people's most base instincts. The metaphor for today's politics is striking.

In the end, Maximus returns to face the corrupt Commodus, not only in the name of justice for his family but also for a more principled, republican form of government.

Similarly, in *The Patriot* Mel Gibson portrays Benjamin Martin, who also is spurred to action by an attack on his family, this time during the American Revolutionary War.

The Patriot received criticism from both the political left and right when it was released just prior to Independence Day. Some conservatives did not like Martin's initial unwillingness to go to war against the British. He opposed the tyranny of taxation without representation and favored American independence, but at the beginning of the film would not fight for these ideas. Not only were the memories of his own actions during the French and Indian Wars apparently so painful that he did not wish to shed blood again, but Martin also possessed a strong desire simply to be left alone—in reality, a very American trait.

However, after a ruthless British officer kills one of his sons and takes another away to be hanged, Martin must take action. Eventually, he moves beyond mere revenge as his motive for waging a guerrilla-style war against the British and becomes a true patriot fighting for liberty. In the film's final epic battle, for example, he puts aside a chance to exact justice for his family in order to pick up the flag and urge on the American rebels in inspiring fashion at a crucial moment.

Contributing editor Raymond Keating is chief economist for the Small Business Survival Committee, a weekly columnist for Newsday, *and co-author of* U.S. by the Numbers: Figuring What's Left, Right, and Wrong with America State by State.

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The strength of *The Patriot* is its emphasis on family and the great personal sacrifices made by our forebears in securing freedom. Here is a loving father looking to protect his family, and in doing so comes to see the just nature of the American fight for independence. One would think that conservatives would warmly embrace such a portrait.

The political left was aghast to see Gibson's character hand rifles to two of his young sons, who help in an assault on British soldiers to rescue the son being taken off to be hanged. Martin had taught his sons to shoot—a necessity of the times—and after the attack, he correctly tells his boys that there was "nothing wrong" in what they did.

In today's era of gun phobia, it should surprise no one that this scene generated controversy. Those crusading against the right to bear arms fail not only to understand the U.S. Constitution and history, but also the simple fact that guns are not inherently evil. Like most other tools and instruments, they can be used for good or bad, depending on who carries the weapon and what his intentions are. *The Patriot* makes this quite clear when comparing the acts of the ruthless British officer to Martin's fight for justice and liberty.

X-Men and *The Perfect Storm*

While *Gladiator* and *The Patriot* deal with the past, *X-Men* is a sci-fi flick about the not-too-distant future, when mutations are appearing more often and are characterized as the next step in human evolution. This film offers a clear anti-intrusive-government message, as well as a celebration of the individual.

Stirring up fear among humans against the Mutants, one U.S. senator calls for a new law to mandate mutant registration, comparing it to federal gun registration. The Mutants oppose this act of invasive government, but their responses split them into two camps. One faction reacts violently and seeks to destroy humans, while the second camp, led by the X-Men, a group of mutant superheroes, looks to work constructively with mankind. So the primary conflict in the film is not between mutants and humans, but between these two groups of mutants—in a way offering an interesting statement about how various minority groups over the years have reacted against discrimination.

Indeed, by emphasizing a group of individuals as outcasts, *X-Men* serves as a metaphor for issues like race and immigration. But the unmistakable message is one of embracing people as individuals.

The movie is particularly pro-immigration. It is no mere coincidence that the final battle scene takes place on and around the Statue of Liberty and Ellis Island, with the newcomer X-Men fighting to save New York City—in fact, mankind—from destruction.

Finally, another big hit of 2000 offers an affectionate look at individuals willing to work hard to make their way in life. After seeing *The Perfect Storm,* I'll never complain about the price of fish again. The movie is based on a true story about fishermen out of Gloucester, Massachusetts, who lost their lives during a massive storm in the fall of 1991 while trying to support themselves and their families.

The moviegoer truly gains a feel for the hard and dangerous life of fishermen, and is even treated to a lesson in economics on how a sword boat works. The boat owner, captain, and each member of the crew get paid according to a cut of the final catch. Everybody has strong incentives to work.

While the boat owner in the movie was cast in a less-than-appealing light, overall *The Perfect Storm* was nothing less than an ode to those who work hard and literally risk everything fishing the open seas.

It is a rare year when those who embrace liberty, immigrants, and hard work can respect, to varying degrees, so many top Hollywood films. Perhaps we should enjoy it while we can. □

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DECEMBER 2000

Forgotten War in a Forgotten Country

From a distance the jungle looks peaceful. Dense, green plant growth covers hills that march endlessly onward. Primitive villages emerge in simple clearings: wood and bamboo buildings, covered by thatched roofs, sitting on stilts, and open to rain, animals, and mosquitoes.

War is everywhere. Two million ethnic minorities have been displaced by 50 years of conflict: 243 of them lived in Law Thi Hta, just across the Moi river from Mae Sot, Thailand.

War consumes their lives. One 22-year-old told me he had been fighting "for many years," perhaps ten. But General Bo Mya, who also serves as vice president of the Karen National Union (KNU), joined the Karen revolution when it started in 1949.

General Ne Win seized power in Burma, now officially Myanmar, in 1962. Mass democracy protests in 1988 were crushed with martial law backed by bullets. The ruling junta foolishly called elections two years later, which were won by the National League for Democracy, headed by Aung San Suu Kyi. The self-styled State Peace and Development Council (SPDC) annulled the election, put Suu Kyi under house arrest, and arrested many of her followers.

Although international attention has focused on Suu Kyi, the more serious threat to the ruling junta comes from the Karen and other ethnic groups, which have been fighting for autonomy since Burma won independence. During the last decade some of them have come to terms with Rangoon. But the Karen and several other ethnic groups fight on.

In response, the SPDC has expanded its military to some 400,000. Two years ago 13-year-old Yei Shweh took a bus to Rangoon to see the big city: he was seized by the army when he arrived.

Rangoon maintains numerous bases in eastern Burma and periodically strikes at villages suspected of harboring rebels. SPDC forces impress civilians as porters for months at a time. Refugees report frequent atrocities, stories confirmed by Yei Shweh and other defectors.

As a result, the Karen fight desperately. The battle remains sadly uneven, however. The Karen National Liberation Army (KNLA) fields 4,000 to 5,000 ill-equipped guerrillas. The troops I met tended to be in their teens to their 30s. They mix fatigues and boots with ethnic Karen wraparound skirts, flip-flops, and American-language shorts, t-shirts, and baseball caps. Soldiers carry a motley assemblage of arms.

The KNLA forces usually inflict far more casualties than they suffer—they claim a 20-to-1 kill ratio. But they can rarely stop a determined SPDC offensive and are increasingly pressed against the Thai border.

The "Killing Season"

The dry season is known as the "killing season" because steep jungle trails dry out

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and rushing streams run low. Military action typically ends mid-year, but SPDC troops arrived at Law Thi Hta before the rain. Just six weeks after my visit, Burmese troops burned the village, including a small hospital constructed by Christian Freedom International (CFI), a relief group based in Front Royal, Virginia. A second clinic to the north, along with the refugee camp housing 4,000 people where it was situated, was also destroyed. "This happens every year," observes CFI head Jim Jacobson, but this is "one of the worst years."

The Burmese government's victories are usually costly and often temporary. The SPDC cannot garrison the rugged and isolated jungles. But it doesn't have to. All it has to do is terrorize and displace the Karen. As KNLA General Saw Htey Maung acknowledges, "the SPDC try to fight the grassroots, our back bone, the villages," so the people "don't have the morale to support us with food or anything else."

The plight of the Karen is only likely to worsen. Thailand recently announced that with the help of the United Nations High Commissioner for Refugees it hopes to move 100,000 refugees back into Burma within three years.

Yet fighting continues to rage. Earlier this year Rangoon rejected an offer from the KNU to negotiate at a neutral location outside of Burma. Unfortunately, there is no evidence that the SPDC is prepared to end its murderous depredations, let alone offer the autonomy for which the Karen have been fighting for a half century.

Which leaves the Karen—along with Suu Kyi—hoping for outside support. General Htey says, "If we had a chance we would request that the American people help us to get our freedom state."

But what can be done about a repressive and isolated regime like the SPDC? It is supported by China, which covets naval access to Burma's long coastline and began arming and financing Rangoon in 1990.

U.S. and European Union economic sanctions inconvenience the SPDC, but have not shaken its hold on power. Unfortunately, though, as in Cuba, Iraq, and Serbia, American restrictions impoverish those who languish under dictatorial jackboots.

Moreover, warns Robert Manning of the Council on Foreign Relations, as a result of sanctions Rangoon "has drifted toward Beijing." The ASEAN states (Rangoon joined in 1997) similarly complain that U.S. policy has hindered their efforts to counter Chinese influence.

Some see failure as a reason for more restrictions. KNU President Saw Ba Thin says that "we'd like to see the U.S. government increase pressure like trade sanctions and diplomatic sanctions, and other pressures." But sanctions have evidently failed and most countries are moving in the opposite direction. At meetings in Seoul earlier this year Asian, European, and U.S. officials met to consider new approaches to Burma.

Some Karen pine for Western military intervention. Last year a top KNU official told Rich Miniter, a journalist colleague of mine: "Do like you did in Kosovo." Saw Ba Thin concurs: "If the American government could do it, it would be helpful." Similarly, General Htey says, "You are from the U.S. You can come and help us."

However, America's interest in the Karen's struggle is humanitarian, not strategic, and does not justify risking U.S. lives. Tragedy abounds in the world; the resulting horror should not be compounded by involving U.S. soldiers.

A better alternative to current policy is probably a mix of diplomatic pressure, which can most effectively be applied by Japan, India, and the ASEAN states, and economic engagement, primarily by private individuals and organizations. New Delhi has a particularly important role to play, since it has already moved to counter China's rising influence in Burma.

Over time broader contact with the West offers the possibility of strengthening internal democratic forces. But this will be an uncertain and long-term process at best.

The West's most important role may be to help the Karen and other ethnic peoples cope with SPDC brutality. That largely means private assistance, such as that provided by Christian Freedom International. □

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IDEAS ON LIBERTY
DECEMBER 2000

Capitalism and the Zero

by John Hood

In traditional discussions of the rise of free-market capitalism, great attention is paid to changes in institutions, technologies, and ideologies. We read the great philosophers and classical economists. We study the legal and political systems of England and Holland, which limited the power of government and promoted trade and economic freedom. We trace the history of kings and statesmen. But serious students of this fortunate event in human history should examine another factor with a far more ancient pedigree: the discovery of the number zero.

Our story begins in the cradle of human civilization, Mesopotamia. Historians are learning more and more about the inhabitants of this land (modern-day Iraq). Civilization began in the region not only because of farming opportunities that the Tigris and Euphrates rivers created, but because the Sumerians, Babylonians, and Akkadians were an industrious and inventive lot. They came up with a variety of agricultural, military, and cultural innovations. New archaeological discoveries suggest that their success was also due to the growth of trade and commerce, which were in many cases surprisingly sophisticated.

Primitive people had, of course, engaged in trade far back into prehistory. But merchants in Mesopotamian towns such as Uruk and Ur appear to have pioneered such crucial tools as business partnerships and interest-bearing loans in the centuries before 2000 B.C. The lending of breeding stock was most likely the origin of the latter innovation. Indeed, the intimate connection between lending and livestock is easily seen in language. The ancient Sumerian word *mash*, which archaeologists identify as "interest," was also the word for "calf." The ancient Greek word for "interest," *tokos*, had the original meaning "calf" too. The Latin root of the modern "pecuniary" is *pecus*, meaning "flock." And the ancient Egyptian word for "interest" doubled as "to give birth." Perhaps the rate of interest in early contracts referred to the number of calves or lambs owed the owner of a stud. Later the concept of rate of return in breeding contracts came to be applied to other business arrangements.

Certainly by the time of Hammurabi's reign in Babylonia, in the 1700s B.C., lending must have been commonplace. Historians know this because surviving tables chronicle government regulations on the interest rate; a cap of 20 percent was frequently specified but just as frequently evaded by manipulating loan length and terms. Other records dating to the same period from Ur, the Biblical Abraham's hometown, reveal the existence of a financial district, a sort of ancient Wall Street, where lenders congregated to make deals, compete, and finance long-range trade. These early financiers apparently experimented not only with lending at interest but also with business

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forms distinct from the traditional family proprietorship.[1]

One tablet tells the story of Ea-Nasir, a merchant from Ur who assembled a group of 51 investors who provided either silver or trade goods, particularly baskets. Ea-Nasir conducted trade missions southward to Persian Gulf ports, where he traded for copper, precious stones, and spices. Ea-Nasir's business appears to be a rudimentary form of the limited-liability partnership. Investors were liable only for the money or goods they contributed up front. Losses beyond the capital investment were apparently swallowed by Ea-Nasir, as were the bulk of the profits to compensate him for this risk. In addition, the investors were compensated not strictly with interest but with a share of profits earned from Ea-Nasir's trips south. In other words, they were equity investors—and not all large ones. Records show that ordinary citizens, investing a bracelet or two, could participate, anticipating the idea of mutual funds of small investors. "The effect of this business structure upon personal fortunes was profound," writes Yale University historian William Goetzmann. "People were able to 'insure' themselves against personal failure—if their own venture collapsed, then the investment in Ea-Nasir's might carry them through hard times."

Still another tablet chronicles the use of interest rates to teach mathematics to young scholars, illustrating the close connection between business and numbers. The Babylonian system of counting was based on 60, rather than the decimal system we use today, and was expressed in a form of writing called cuneiform that is clumsy by today's standards. Yet the system was sufficient to allow the Babylonians to chart the heavens, survey their property, conduct their businesses, and collect their taxes. It is likely that difficulties in charting the increasing amount of trade led the Babylonians around the third century B.C. to invent a "placeholder" number so they could calculate large quantities. But they didn't actually come up with the concept of zero as a mathematical quantity. Nor did other ancient mathematicians.

For all its intriguing innovations, the Mesopotamian economic system lacked the concept of economic independence that fully free markets require. Most of the lending, for example, was for "emergency needs" rather than profitable investment, and the emergencies almost always involved taxes or temple requisitions, which were really the same things. More generally, Mesopotamian society simply did not allow for much large-scale economic activity outside of government, which officially owned large segments of the arable land and lorded over tenant farmers in ways more despotic than Europe's feudal barons ever dreamed.

Individualistic Greeks

The individualistic, landowning ancient Greeks, particularly in Athens, built on the Mesopotamians' early commercial innovations. The Greek economy, more so than in the Near East, featured long-term investment in such products as olives and wine. Stable private property rights and the decentralized, participatory government they engendered fostered long-term investment and made possible true private-sector banking, albeit on a relatively small scale. Athenian lenders invested in overseas trade, providing maritime loans as well as opportunities for equity investment. Banks accepted deposits of money from natives as well as out-of-town merchants. One successful banker was Pasion, a former slave who lived in Athens in the fourth century. His masters were bankers, too, from whom he learned the trade. At his death, his was the largest bank of at least seven operating in the city.[2]

Still, it is difficult to separate ancient investment from government, since the same lenders financing international trade were also frequently government creditors, public officials, or a hated "tax farmer." The latter, known in Jesus's day as "publicans," were contractors who bought the right to collect taxes in a particular neighborhood or town, then profited by charging a higher rate, loaning money to debt-strapped farmers without other means of paying taxes, and in many cases by hiring goons to confiscate property on the flimsiest of pretenses. The ravages of the tax farmers and the financial insiders

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associated with rapacious governments who profited from public works and the sale of military supplies, coupled with the envy that lenders and investors have always seemed to engender in their fellow countrymen, gave ancient financiers a bad name and paved the way for much government meddling.

In both Mesopotamia and Greece, governments periodically issued debt amnesties and tried to regulate interest rates. Prophets and philosophers railed against the wealthy bankers. Socrates called government debt relief the tool of the "demagogue," but he wasn't above comparing moneylenders to wasps and parasites. Rome typifies the blended nature of ancient finance. By early imperial days, Rome had developed a fairly sophisticated financial sector, complete with lending, banking, (quasi-) limited-liability enterprises, and the sale of "stock" in such enterprises among Roman nobles. Unfortunately, much of this financial activity revolved around lucrative tax-farming contracts in Asia Minor and other Eastern provinces.

Even those nascent forms of monetary investment might have evolved into something more closely approaching international capitalism if the empire itself had not grown in size and cost. As economist Lawrence Reed tells the story, swelling bureaucracies and armies led emperors to attempt ever more desperate ways of financing the government and paying debts. These included hiking existing tax rates, inventing new forms of taxation, inflating the money supply, and confiscation. Ultimately, the money economy itself was driven out of the West, not to return for several hundred years. When it did, ironically enough in Italy, one of the catalysts was the zero.

Medieval Business Innovations

The first glimmers of the re-emergence of large-scale private commerce can be seen in the eleventh century. It began with an innovation that makes few millennial history lists but, small as it may seem, set the stage for capitalism itself. Double-entry bookkeeping, developed by Italian merchants in the eleventh century based on concepts borrowed from Arabic traders, wasn't the result of some esoteric pursuit of truth. It was a practical solution to a common problem—bookkeeping errors. Particularly before the widespread use of Arabic numerals, maintaining accurate records of any large-scale operation, business or not, was a major challenge. Imagine having to keep books with Roman numerals. Commerce existed, of course, but it was inherently limited. Nor was it possible for merchants of different cultures to find common ways of valuing their enterprises and developing long-term relationships.

Here's where mathematics re-enters the picture. While the Babylonians (and, independently, the Mayans across the sea in present-day Central America) had come up with a "placeholder" zero, Indian scholars in the sixth or seventh centuries introduced the idea that zero represented "nothing." It sounds banal, but it had revolutionary implications, particularly after the concept was introduced into the dynamic and adventuresome Islamic culture by famed mathematician Al-Khwarizmi in the ninth century. Al-Khwarizmi himself acknowledged that his interest in Indian numeration systems based on zero arose from the need for people to solve practical problems related to inheritances, wills, purchase and sales contracts, surveying, and tax collection. As what we now call Arabic numerals began to spread throughout the Islamic world in the ninth and tenth centuries, the traditional small-scale partnerships that characterized commerce early in Islamic history—a business form in which the Prophet Mohammed had himself participated—gave way to large-scale trading companies in which investors owned the equivalent of stock and around which a system of banking and credit evolved.

Unfortunately, Islam's early trading institutions, though elaborate and the source of tremendous wealth, never developed into capitalism of a European sort. As was previously the case in ancient Mediterranean societies, Islam's rulers were heavily involved in business enterprises, rarely paid their own debts, and imposed excessive costs in the form of taxes, regulations, wars, and outright confiscation. Neither Islamic law nor Islamic rulers recognized the independence of trading cities

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or the enterprises that populated them. And as historian Subhi Y. Labib has noted, other basic concepts such as commercial insurance "remained practically outside the scope of Islamic economic thought" during the period.[3]

Double-Entry Bookkeeping

But Arabic innovations, particularly in mathematics and bookkeeping, would find fertile ground across the sea by the eleventh century. As merchant families from Venice and other Italian trading cities began to resuscitate long-range trade in the Mediterranean after the interruptions of the Dark Ages, someone armed with the new Arabic numerals hit on a bright idea. To detect accounting errors in his business, he would enter all transactions twice, once as a debit and once as a credit. For example, the purchase of a new scale would require the entry of an asset (the value of the scale) and a liability (the cash withdrawal or debt incurred to purchase it). At the end of any recording period, typically a month, the merchant would total all debits and credits. If the two totals didn't match, he would know to look for a flawed entry.

Double-entry bookkeeping became far more than an error-detection device, however. For the first time, it allowed managers to determine accurately the net worth of their businesses at any point. But more important, it created a conceptual doorway to what we now know as modern industrial capitalism. Here's how. The only way for assets to equal liabilities is if the equity stake is itself considered a liability—an obligation to the owner. Double-entry bookkeeping, in other words, is based on the concept that a business is distinct and separate from its owner(s). In an eleventh-century world of family businesses, this was revolutionary, to say the least. Such separation was necessary for the future development of limited-liability partnerships and corporations, the building blocks of a modern capitalist economy. Economic historian Werner Sombart summed it up well: "One cannot imagine what capitalism would be without double-entry bookkeeping."[4]

One further effect of this innovation was to make possible the creation of a system of international business finance far surpassing anything developed by the Mesopotamians, Greeks, Romans, or Muslims. After all, lenders in these societies had a major handicap. Outside their own circle of family and business acquaintances there were huge transaction costs in extending credit. Independent information about prospective borrowers was nearly impossible to derive. Double-entry bookkeeping gave lenders a common accounting language and a useful means of distinguishing the appearance of prosperity from the reality. The practice, write Nathan Rosenberg and L. E. Birdzell, Jr., "grew into an agreed-upon procedure for recording all economic events in a measurable and therefore calculable way. In a very real sense, economic reality became that which could be expressed in numerical terms in the books."[5]

The Financial Revolution

Double-entry bookkeeping was followed closely by a succession of other innovations and institutions that formed the building blocks of capitalism. Armed with the ability to calculate business values accurately, merchants developed a body of commercial law to provide predictability in a world of petty tyrants, a patchwork of fiefdoms, and the ever-present threat of piracy. The ancient Greeks had pioneered the use of maritime loans to underwrite long-range trade, but by the twelfth century Italian merchants had invented more formal insurance contracts that guaranteed a trading mission against loss in return for a stated premium. Later, insurance markets in Italy, Amsterdam, and London differentiated maritime insurance, a risky product covering acts of piracy or God on the high seas, from more marketable commercial insurance, which covered the profitability of the subsequent sales. "The division between specialists in maritime risks and specialists in market risks greatly facilitated the growth of maritime trade," Rosenberg and Birdzell write.[6]

Bills of exchange, in existence by the thirteenth century, permitted merchants to transfer the amounts they owed each other without having to exchange coin or goods directly.

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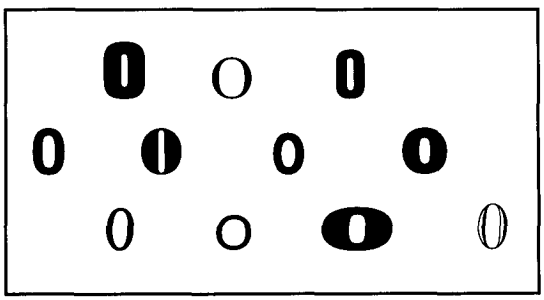
These early checks were themselves traded among far-flung traders, giving rise to a private system of paper money based on the credibility of the merchant families against whom the bills of exchange were drawn. Deposit banking was the next logical development, as lesser merchants deposited funds with prominent trading families whose drafts were credible money in faraway lands. The creditors found that they need not maintain the entire face value of their circulating notes and could use some of their deposits to buy other bills of exchange at discount—"that is, for lending money at interest despite the prohibition of usury."[7]

Also in the thirteenth century, some governments began a tentative, but inexorable movement away from arbitrary taxation to a more predictable system for collecting revenue, controlled in England and later in Holland by the merchant class sitting in council rather than by kings or tax farmers. Kings put up with their diminution of the direct power to tax in exchange for a steady flow of revenue. One result in both England and Holland was that real capital assets such as vessels and trading stations could be owned and operated by private enterprises without fear of arbitrary seizure by sovereigns, a right that continental merchants—and, indeed, most of their counterparts in the Islamic world, India, and China—simply could not take for granted. This made large-scale private investment possible for the first time in markets previously the province only of governments or small-scale merchants.[8]

The final innovation needed to pave the way for the Mercantile and Industrial Revolutions of the latter half of the millennium was the development of truly private property rights and institutions. In England and other regions of Western Europe, increasing population pressures in the thirteenth century led to robust competition for arable land and pastures, increasing enclosure of range land, and the evolution of laws governing alienation and transfers of land. States took over the administration of private property claims from feudal barons. At the same time, kings began to give exclusive franchises to private entities to operate certain economic enterprises or monopolize certain trade routes. While hardly free-market in nature, these franchises weren't tax farms in the Roman or Muslim sense. They were honest-to-goodness trading enterprises that allowed private merchants to build up physical capital (ships and equipment) and human capital (skilled labor and knowledge of routes and markets) without as much fear of interference or confiscation of their ships or workers by governments.[9]

It is no exaggeration to say that these innovations, setting the stage for the birth of capitalism, followed directly from the discovery of zero and its introduction into European commerce. No king subsidized its invention, and no government program mandated its acceptance. Common folks, of many nationalities, had simply come up with a tool that helped them solve their problems. From such a lowly beginning, human freedom and progress took giant leaps forward. □

1. William N. Goetzmann, *Financing Civilization*, forthcoming.
2. Richard Pipes, *Property and Freedom* (New York: Alfred A. Knopf, 1999), pp. 98–99.
3. Subhi Y. Labib, "Capitalism in Medieval Islam," *The Journal of Economic History*, March 1969, pp. 93–95.
4. Quoted in Nathan Rosenberg and L. E. Birdzell, Jr., *How the West Grew Rich: The Economic Transaction of the Industrial World* (New York: Basic Books, 1986), p. 127.
5. Ibid.
6. Ibid., p. 118.
7. Ibid., p. 117.
8. Douglass C. North, *Structure and Change in Economic History* (New York: W. W. Norton & Co., 1981), p. 141.
9. Ibid., p. 133.



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IDEAS ON LIBERTY
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Death by Government Protection

Purely for the sake of discussion, let's assume the worst about Firestone and Ford: that gross negligence led to the production of tires that killed and injured people riding in Ford Explorers. What does this add to the debate between capitalism and the regulatory state?

Crusaders for government regulation think it adds a great deal. "Consumer advocates" and pundits almost gleefully proclaim that the Firestone/Ford case demonstrates that the deregulation movement is wrong. If reminded that the case occurred in a regulatory regime that includes the National Highway Traffic Safety Administration (NHTSA), the regulationists reply that the agency was gutted in the alleged anti-government 1980s, its budget 30 percent lower today than it was in 1980.

The implication of course is that a beefed-up NHSTA would have prevented the purveying of lethal tires. Is there anything to this?

Before taking up this question, some general observations are in order. The preference for the self-regulating market over a government-regulated market does not hinge on any belief that businessmen are more virtuous than anyone else. That would be naïve indeed.

The case for capitalism, rather, begins with the premise that people ought to be free to pursue their happiness unmolested by others. Thus advocates of capitalism need harbor no unconditional love for anyone who calls himself a businessman. People have free will. They are capable of choosing to do bad things or to be so unmindful of the consequences of their actions that they harm others. The social system called capitalism, the essence of which is private property, does not promise to rid the world of such people. That would be utopian. Instead, it assures that its defining features perforce discourage such conduct. It further provides the grounds and procedures for restitution when it does occur. That is the best we can hope to achieve. No competing system can deliver more; indeed, any alternative would deliver a good deal less and worse.

What generally keeps businesspeople from making products that are unreasonably dangerous?* The desire to stay in business would seem to be a strong incentive to avoid endangering one's customers. The classic fly-by-night con man of course does not intend to stay in business. But a fly-by-nighter lacks a reputation, and that in itself limits the damage he can do. On the other hand, the company that intends to be in business a long time has much to lose by making products the reasonable use of which harms or kills customers. Consumers put companies out of business for much less serious offenses. Actual and potential competition assures that consumers will have alternatives to products about which they have doubts. Because shareholders understand this, Firestone's stock hit an eight-year low in mid-September. Its existence is seriously in doubt.

Sheldon Richman is editor of Ideas on Liberty.

*I phrase it that way because, as Dwight Lee has been pointing out in this magazine, in a world of scarcity, perfect safety, even if it could be achieved, would require tradeoffs that consumers would find unacceptable.

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Consumer retribution in the marketplace, moreover, is only part of the story. The law of torts stands as a warning that negligence and recklessness will have serious consequences for a company.

This leads us to wonder what happened inside Firestone or Ford. At this writing, we simply don't know. What we do know is that a private company with a stake in automotive safety, State Farm Insurance, alerted the government two years ago and nothing happened. The fact that Firestone and Ford did not act as the theory of markets says people will *tend* to act does not invalidate the theory. We use thousands of products every day. Serious, not to mention catastrophic, malfunctions are the exception. Recalls make news because they are rare. And businessmen now have a new lesson in Firestone and Ford. If they didn't know it before, they know it now: unreasonably dangerous products are bad business.

Government as Protector

As Thomas Sowell says, in our world there are no solutions, only tradeoffs. Keep that in mind as we consider the state alternative to market-based consumer protection. Advocates of government regulation assume it is costless: not that there are no money expenses, but that nothing important is traded away when the state displaces the market as the protector of consumers. Yet economists over the last 40 years have documented the costs of government protection. Most dramatic is the literature about the Food and Drug Administration. We now know that government protection kills by delaying the availability of life-saving drugs. Further, thanks to economists of the Public Choice school, we know that bureaucrats, despite the best intentions, confront incentives that are adverse to the interests of consumers. An FDA official who delays a valuable drug because any post-approval mishap would bring him bad publicity is not serving the "public interest." (See Daniel Klein, "Economists Against the FDA," *Ideas on Liberty,* September 2000.)

What is true for the FDA is true for the NHTSA, the agency whose airbag and fuel-efficiency mandates and obfuscation have demonstrably cost lives. This agency's advocates want a bigger budget, more personnel, tougher standards, and more authority to recall tires. But those things are not costless. As Robert Levy of the Cato Institute points out, NHTSA bureaucrats would have an incentive to prematurely recall tires: if they don't recall them and someone dies (for whatever reason) in a car equipped with them, they'll have congressmen and reporters breathing down their necks. But if they recall the tires, no one would ever know if anyone *would* have been killed had the recall not occurred. Face it: there is no perfectly safe tire.

Another cost of a more active bureaucracy would be the inevitable delays and added expense of new tire technologies that didn't meet the government's standards. Just as the FDA keeps life-saving medicines off the market for long periods (even when they are being used successfully in Europe), the NHTSA could keep revolutionary tires off the road. They might have saved lives, but no one would know and no bureaucrat would be held responsible.

The promise of government protection carries an even greater cost: *the consumer vigilance forgone owing to the false sense of security the promise of government protection induces.* The government cannot actually deliver on that promise—medical licensing has not eliminated quacks—but it's the promise that counts. Since people generally believe the government looks out for them, they develop an unarticulated frame of mind summed up by the words: "they couldn't sell that if it was dangerous." A false sense of security is worse than no security at all. It sets people up to be victimized.

If the government stopped regulating—and everyone knew it—the buying public's vigilance would grow. People would seek out information. Entrepreneurs would respond. Insurance companies would assume a larger role. Private consumer advocacy would expand. Lives would be saved. □

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High Savings Rates and Asia's Economic Crises

by Christopher Lingle

A high rate of saving among Asians was once credited for its important contribution to the remarkable performance of their "miracle" economies. But Japan's recession and China's deflationary cycle indicate that a high rate of saving does not guarantee high growth. This is because high savings reduces overall spending by households and companies. It may also lead to high public and private debt owing to relatively low borrowing costs.

It has become clear that neither aggressive investment spending nor high saving rates can guarantee sustainable growth. High savings should be now interpreted as a symptom of despair in some of East Asia's economies. In particular, uncertainty over the future has raised savings rates in China and Japan while also contributing to deflation in both countries.

In much of East Asia, a considerable part of the investments over the past decade evaporated in a property bubble or disintegrated into excess capacity of production facilities. This destruction of wealth represents one of the greatest daylight heists in modern time.

As many of the region's economies are reviving from slowdowns or full-blown recessions, uncertainty about the future is inspiring many Asians to save even more money. Obviously, the increase in savings means there is less buying. In turn companies find themselves holding growing inventories and earning lower profits as they resort to the price-cutting necessary to shed unwanted stockpiles. At the same time, there will be reductions in employment that induce households to begin another cycle of saving more and spending less.

In South Korea, according to estimates from the Asian Development Bank and International Monetary Fund, where unemployment moved toward an all-time high of 2 million, or just over 9 percent, gross national savings rose to over 35 percent of GDP in 1998 from about 33 percent in 1997. The figure for Japan is about 27 percent, just over 30 percent for Hong Kong, and over 45 percent for Malaysia and Singapore, while in Thailand savings are 34 percent of GDP.

Similar results are being observed in China. Although always high (about 44 percent), its marginal saving rate climbed substantially during 1999. Pressures from declining prices induce households and businesses to defer spending.

Japan's saving rate is likely to continue to remain high and perhaps be pushed higher. Households there have ignored rising public expenditures, entreaties from political leaders, even free sales vouchers. Instead they continue to add to their savings. There is little wonder why.

Japanese workers do not spend because they are worried about whether they will lose their jobs. And then demography works against rising consumption owing to Japan's

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swelling ranks of elderly who are not big spenders in any country. Facing huge bills for recapitalizing Japan's banks and for the additional government spending, taxpayers must put away funds in anticipation of rising taxes in the future. Young Japanese are finding fewer prospects for employment, and many may face a difficult choice to emigrate. In this tough environment of tight-fisted consumers, it is difficult imagining businesses wishing to invest. Even were they willing or able to expand, the banking crisis makes it unlikely that they would find banks willing to lend.

And so it is domestic woes that have been the undoing of countries that staked their economic futures on exports. As a consequence of their neo-mercantilist approach to development, most East Asian economies had two distinct sectors. Their international sectors tended to be modernized and geared up to meet and beat competition from global competitors, while the domestic sectors tended to be much less open to competition. In some cases this was due to restrictions on foreign ownership and investments, while in others there were tariff and nontariff barriers to trade.

Shielded from Competition

Consequently, companies operating locally often found themselves shielded from internal and external competition. Years of protection behind regulatory walls kept them from being cost conscious or stripped them of incentives to innovate. As in most economies, their domestic sectors were the largest component, and it is this sector that is pulling these economies down and holding them back from full recovery to a sustainable growth trajectory.

Political leaders seeking to see their countries escape the economic doldrums need to understand there must be massive restructuring of their domestic sectors. At the same time, there should be an overhaul of their "institutional infrastructure" to make their economic policies more compatible with the requirements for successful engagement with the global economy.

This also involves abandoning reliance on their export-led, neo-mercantilist development policies. Policymakers must be made to understand that the principal advantages from trading are not from exporting. Instead, trade is mostly beneficial because purchases by producers and consumers from the least-cost provider bring about increases in competition and efficiency that promote economic growth.

Import-led growth arises from foreign competitors' imposing pressures on domestic producers that must become efficient to survive. When these improvements lead to gains in labor productivity, wages rise and provide the basis for higher consumption. Productivity gains also lower unit costs while allowing growth in profits to enhance shareholders' wealth that can boost consumption and investment.

And then the benefits begin to extend to the international sector. Allowing inputs or intermediate goods to be imported for the export sector leads to lower operating costs. As production costs fall and productivity increases, the capacity to sell in a competitive export market rises. As domestic multinational enterprises experience rising profits, they are able to shop around for overseas production facilities and better sources of raw materials.

East Asia's economies have to undergo a radical transformation that focuses on inward development through a further opening and liberalization of their trade and financial markets. Savers deserve higher returns on their assets. This will inspire greater efficiency arising from competition and provide a solid base of domestic demand to ensure sustainable economic growth. Ironically, the clearest signals of recovery for East Asia's economies will be when savings decline and imports rise. □

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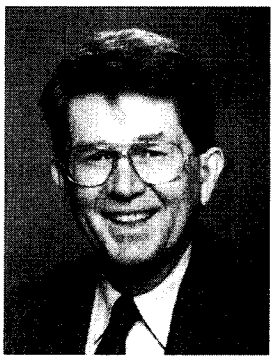
Economics



How Government Prevents Us from Buying Safety

There is a limit to how much people will voluntarily pay to reduce the risk of accidental injury or death. In other words, the marginal value people place on their lives is finite. We accept some risks to take advantage of opportunities to do things that, at the margin, provide more value than the expected sacrifice in health and life expectancy. In effect, people routinely put a price on their lives. They do it every time they go skiing, roller blade in the street, spend too much time in the sun, drive to the store, walk across the street, overeat, stay up late, go swimming, or do any of a thousand other things.

But saying that there is a limit to how much people will pay to reduce risk implies they are willing to spend something. People value safety just as they value other things, and they will purchase it up to the point where, in their estimation, its marginal value equals its marginal cost (the value of what has to be sacrificed to get the additional safety). In fact, we are buying more safety now than ever before because we are richer and can afford more of almost everything.

For example, our jobs are far safer now than they were in the past. In part this reflects the shift away from jobs demanding manual labor (like farming and mining) and into office jobs where paper cuts are the biggest hazard. But employers also spend more to provide safer conditions on all jobs because workers would rather have the additional safety than the higher salary and wages that otherwise could have been paid. We spend more on smoke alarms, slip-resistant bathtub interiors, air filtration systems, and outside lighting to make our homes safer. We demand levels of sanitation in the food we eat, the water we drink, the air we breathe, and the clothes we wear that would have been considered ridiculous a couple of generations ago, and unimaginable in many poor countries today. Airline travel is far safer now, with the number of miles traveled increasing as the number of airline fatalities is decreasing. And the car you drive today is safer than the ones available a few years ago because they are better designed, have better brakes, and contain more safety features.

Our increased demand for safety, and the response to that demand, is explained primarily by marketplace incentives. Without the cooperation and coordination created by market incentives, we would not have experienced the growth in wealth that increased our demand for safety. And when our demand for safety increases we can communicate that demand through prices and profits to those best able to respond. An automobile company that tried to sell cars no more safe than those made in 1970 would quickly go bankrupt, as would an airline with the same safety as 30 years ago. Some people will object that government regulations have forced automobile manufacturers, food processors, the airlines, building contractors, and employers to pro-

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vide the additional safety. It cannot be denied that government regulations have had an impact, but it has been a far less desirable impact than most people realize.

Governments often enact regulations requiring more safety only after the private sector has started providing the desired amount. Indeed this is about the best we can hope for, even though government regulations commonly increase the cost of providing more safety by specifying one-size-fits-all approaches rather than allowing firms to use approaches best suited to their situations. But government regulators often require that we pay for far more safety than we want because of the tendency toward bureaucratic expansion, the desire for greater power, and the demands of politically organized groups. For example, some Environmental Protection Agency regulations are estimated to cost over $4.5 billion per life saved, and some Occupational Safety and Health Administration regulations that are estimated to cost over $72.7 billion per life saved.[1]

The CAFE that Kills

Unfortunately, while some government regulations are making us buy very little safety at exorbitant cost, others are discouraging us from buying a lot of safety at low cost. Consider federal Corporate Average Fuel Economy (CAFE) regulations that require automobile manufacturers to produce vehicles that average no less than a specified number of miles per gallon. CAFE now requires that new cars average 27.5 miles per gallon and that new light trucks (pickups, minivans, vans, and sport utility vehicles) average 20.5 miles per gallon. These regulations were imposed in 1978 to force us to conserve gasoline—after the federal government imposed gasoline price controls that denied people the information and incentive to conserve more efficiently on their own. More recently, environmentalists have lobbied for increasing the required mileage to cut down on the emission of pollutants and alleged greenhouse gases.

It is not clear that CAFE standards do much, if anything, to reduce either gas consumption or pollution. To the extent that the standards increase gas mileage, the cost of driving will go down and people will drive more miles. Also, because the standards increase the cost of new vehicles, particularly the larger ones that are artificially restricted in supply, people drive their old cars longer than they otherwise would, and older cars commonly get poorer gas mileage and almost always pollute far more than new cars. But it is clear that CAFE standards do increase traffic fatalities by preventing people from buying additional safety at very little cost.

Because of CAFE standards, automobile manufacturers have had to produce cars that are smaller and lighter on average than consumers want to buy. Straightforward physics insures that, everything else equal, smaller and lighter vehicles are less safe than large heavy ones—occupants are closer to windshields and dashboards and they are surrounded with less cushion. Not surprisingly, a recent study using government and insurance data found that for every mile per gallon added because of CAFE, 7,700 additional lives are lost in traffic accidents.[2]

One has to conclude that there is a stronger bias in the political process to expand regulations than to increase safety. What other explanation is there for simultaneously imposing regulations that provide almost no safety at ridiculously high costs and preventing people from significantly reducing their risks at the cost of a few gallons of gas? Unfortunately, CAFE is not the only regulation that prevents people from buying more safety at low cost. For example, thousands of people have died needlessly in the United States because of federal Food and Drug Administration restrictions on buying medicines that have been widely and successfully used in other countries to reduce the risks of heart attacks, strokes, and other diseases. Details on these restrictions will have to wait until a future column. □

1. I discussed these and other examples of extremely costly safety regulations in my October column and explained why they result in less, rather than more, safety.

2. This study was discussed by Murray Weidenbaum, "Saving on Gas Costs Us Money—and Lives," *Chicago Sun-Times,* September 17, 1999, op-ed page.

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IDEAS ON LIBERTY
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Standing to Gain from Tattling

by Timothy D. Terrell

Most of us learn early in life to despise tattlers. Sometimes this revulsion results from a desire to avoid punishment for a serious offense, such as an unauthorized redecoration of the guest bathroom wall with a permanent marker. Often, however, the tattler is complaining of an offense that is no legitimate concern of his: "Bobby and Sarah are making ugly faces at each other." Such a complaint might meet with a parental response along the lines of, "What's it to you?" It is an appropriate question for a parent to ask of an unharmed child complaining of a sibling's petty annoyances.

Imagine a parent, however, without a sense of proportion in meting out punishments or the common-sense ability to distinguish between serious and trivial offenses and with 30 feet of shelf space devoted to complex rules and regulations (which are sometimes mutually contradictory and may be inconsistently interpreted) and a standing offer of goodies for tattlers. Imagine now how a "litigious" child could abuse the system if this parent agrees to hear frivolous complaints from unharmed tattlers.

One of the most important U.S. Supreme Court decisions this year concerned whether just anyone may sue if a law has been violated. In *Friends of the Earth v. Laidlaw*, the high court granted a group of environmentalists standing to sue after the group claimed it had been harmed by an incinerator's disposal of waste into a river near Roebuck, South Carolina. Even though there appeared to be *no* evidence that Laidlaw Environmental Services' emissions-permit violations actually caused any environmental damage or health risk, the Court's 7–2 majority held that "concern" about possible damages was sufficient to show harm and establish standing. While we can appreciate the possibility of subjective harm to a plaintiff, it would seem reasonable to place the burden of proof on the plaintiff to demonstrate the nature of that harm.

Significantly, there is nothing but the erratic whim of the court to limit the application of this principle outside environmental cases. In antitrust cases, for example, the *concern* of monopolization could be enough to warrant standing. We may well see, in coming years, a flood of suits alleging various vaporous "harms."

The background for the *Laidlaw* decision includes a number of cases dating from the early 1970s that broke from the common-law tradition requiring the would-be plaintiff to prove some reasonably observable harm, or infringement on a property right, before appearing in court with a lawsuit. A 1973 case, *U.S. v. Students Challenging Regulatory Agency Procedures (SCRAP)*, is probably the most notorious. In this case, George Washington University law students were granted standing to sue the federal government's railroad rate-setting bureau on grounds that a

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surcharge on shipments of freight produced a price differential between recycled and nonrecycled products. This, the students alleged, would lead to decreased use of recyclables. Through a long chain of events, environmental harm could result in the form of increased litter in public places and air pollution from having to manufacture new materials.

Cases such as *SCRAP*, along with numerous new statutes permitting "citizen suits," have substantially weakened the requirement that concrete and particularized harm to the plaintiff be a prerequisite for appearing in court. The historic principle that the legislature should address harms inflicted on the general population and that the courts should address harms to individuals or minorities was implicitly scrapped.

Generous Reimbursement

In addition to the satisfaction the plaintiff/tattler receives from destroying the property rights of landowners, the environmental group is usually reimbursed generously for its services in bringing the violation to the attention of the regulatory agency.[1] There are two chief forms in which this compensation comes.

First, if the plaintiff prevails in court, he is usually reimbursed attorneys' fees and litigation costs at the "community market rate" for for-profit legal services. This might not seem inappropriate, until it is pointed out that the suits are generally brought by public-interest law firms that charge fees considerably lower than the market rate.

Second, many settlements in environmental citizen suits include "supplemental environmental projects," or "mitigation projects," which require the defendant to fund certain projects set up by environmental groups. Though the plaintiff organization is itself excluded from among the group of recipients, these credit programs benefit the environmental movement as a whole. It is not unreasonable to expect that environmental advocacy groups might collusively seek out this project money for their mutual benefit. The sum of these transfers to environmental groups is so substantial that Michael Greve of the Center for Individual Rights has referred to citizen-suit provisions as "an off-budget entitlement program for the environmental movement,"[2] and compared environmental advocacy groups to bounty hunters with incentives to over-enforce the law.[3]

Both the tattler analogy and Greve's bounty hunter comparison can go only so far, of course. In addition to suing private parties for alleged violations of the law, some groups often sue the government if they believe some regulation has not been enforced with sufficient vigor. The citizen-suit provisions present in almost all federal environmental statutes explicitly grant this privilege to "any person" who perceives a violation of the law. Yet the EPA can't lose, even when its "opponent" wins in court. As Ben Lieberman of the Competitive Enterprise Institute pointed out recently, these "sweetheart suits" result in an expansion of the agency's power, as well as the usual pecuniary rewards for the plaintiffs. "In reality, EPA often *wants* to be sued by environmentalists and agency records indeed reveal that it hands out millions of taxpayer dollars to the very organizations that routinely take it to court."[4]

In the early 1990s it appeared that the Court might be moving in a more reasonable direction. Justice Antonin Scalia, one of the soundest minds on the Court, wrote several majority opinions, including *Lujan v. National Wildlife Federation* and *Lujan v. Defenders of Wildlife*, which appeared to restrict the ability of undamaged parties to complain in court. According to research I conducted in 1998, after the second case the EPA seemed less vigorous in its enforcement of environmental regulations.[5] Property owners were somewhat more secure from the threat of legal assaults by environmentalists. However, in *Laidlaw* the high court backed over these previous decisions and gave environmentalists virtually unlimited standing to sue.

The problem of standing is essentially a problem of allocating a scarce resource—judicial decisions—to the highest and best uses. Judges in any appellate court face what Bertrand de Jouvenel called a "chairman's problem," or rationing problem, when deciding which cases to hear.[6] Judges are attempt-

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ing to make these allocations without benefit of crucial price information. Calculation by judges of the total costs and total benefits of deciding specific cases is impossible. An altruistic judge might attempt such a calculation, but as Ludwig von Mises would point out, the hope of consistently producing efficient outcomes is quite dim.[7] Liberalizing standing rules may increase the probability that those outcomes will be inefficient. Judicial decisions always exist on the basis of certain presuppositions, and one traditional presupposition has been that those who are objectively and individually harmed have more at stake than others, and should have priority when limited court time is allocated. Furthermore, those who have suffered harm that is common to the general population traditionally have been referred to the legislature for relief.

One solution to de Jouvenel's "chairman's problem" is, as Murray Rothbard put it, "recasting the concept of rights in terms of private property rather than in terms of freedom of speech or assembly."[8] That is, a chairman facing a number of would-be speakers "*could* ask for price bids for scarce places at the podium and then award the places to the highest bidders. . . . There would then be no shortages, and no feelings of resentment at a promise ('equal access' of the public to the column, podium, or microphone) reneged."[9]

But beyond this, as Rothbard pointed out, the owner of the meeting place (for example, the court) must be the ultimate allocator of permission to speak. Therefore, as long as the owner is concerned for his own well-being, he will attempt to make such allocations as maximize his satisfaction.

A private arbitration firm would have the incentive to choose those cases that would provide it with the highest profit, presumably, those that either enhance the reputation of the firm or offer high compensation from the litigants. Each arbitrator would then have to establish standing criteria. One can imagine many versions of the standing doctrine that might evolve through different arbitration decisions, but we would expect private arbitrators to come up with something similar to the traditional, common-law restrictions on standing.

This is because a restrictive standing policy has a unique element of efficiency. It limits the set of potential plaintiffs who may be approached by a potential offender for bargaining. Without some limitation of plaintiffs to those who are concretely and particularly harmed by an action, there would be no way for a potential defendant to approach each one to secure permission or offer compensation for the offensive act he is considering. Possibly profitable exchanges could not occur, and potential wealth could not be created.

Avoiding Nuisance Suits

For instance, suppose a forester is considering harvesting activity that would add silt-bearing runoff to a stream and possibly harm those owning the stream or property along the stream. To avoid a potential nuisance suit, he approaches the stream owner or property owners along the stream and offers compensation in exchange for permission to pollute. If he succeeds in obtaining these rights, and has not omitted a property owner, he is secure from legitimate lawsuits. If anyone can sue, including those claiming a "concern" about pollution, there is no way to contract out of the problem. An anti-logging group in another state could assert an "aesthetic or conservational" interest in the purity of the stream's water and succeed in enjoining the forester's harvesting. Certainly members of such a group could actually suffer psychic harm from the forester's activity. However, the need for predictability in all our activities seems to promote a conservative view of standing.

Currently, there is little expectation that state-run courts will give way to private arbitration on anything like a large scale. However, there is a way to sidestep the entire standing issue. Reducing the need for adjudication would reduce the need to decide standing issues. It is no coincidence that standing has come to the forefront of judicial controversy at the same time that government regulation has exploded into almost every area of human decision-making.

Citizen-suit provisions are now a fixture in

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federal environmental regulation, and professional "tattling" is big business for environmental advocacy groups. If it is not politically feasible to eliminate citizen-suit provisions, and if the courts continue to downplay the "What's it to you?" question, then reducing regulation would eliminate some of the fuel for standing controversies. "Concerned citizens" cannot sue for the enforcement of a property-right destroying statute that does not exist.

"He who passes by and meddles in a quarrel not his own is like one who takes a dog by the ears," says the Book of Proverbs, chapter 26. Some of us learned as children to stay out of matters that were no legitimate business of ours. Thanks in part to citizen-suit legislation and the U.S. Supreme Court, those children who didn't learn that lesson have grown up to make a career of tattling. □

1. Michael S. Greve, "Private Enforcement, Private Rewards: How Environmental Citizen Suits Became an Entitlement Program," in Michael S. Greve and Fred L. Smith, Jr., eds., *Environmental Politics: Public Costs, Private Rewards* (New York: Praeger, 1992).
2. Michael S. Greve, "The Private Enforcement of Environmental Law," *Tulane Law Review 65* (1990), p. 341.
3. Ibid., pp. 343–51.
4. Ben Lieberman, "Environmental Sweetheart Suits," October 21, 1999; http://www.cei.org/UpdateReader.asp?ID=823.
5. Timothy D. Terrell, "Rent Seeking and Standing to Sue in Environmental Policy" (doctoral dissertation, Auburn University, 1998).
6. Bertrand de Jouvenel, "The Chairman's Problem," *American Political Science Review*, June 1961, pp. 305–32.
7. *See* Ludwig von Mises, *Economic Calculation in the Socialist Commonwealth* (Auburn, Ala.: Ludwig von Mises Institute, 1990).
8. Murray N. Rothbard, *The Ethics of Liberty* (New York: New York University Press, 1998 [1982]), p. 115.
9. Ibid., p. 116.

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The Self-Imposed Poverty of Economics

by Tibor R. Machan and David M. Brown

Life is more than a game, and human beings are more than rule-bound strategists. Moral values are possible. Authentic allegiance to such values is possible.

Too obvious a point to debate, you think? Maybe not. In *The New Republic* (June 5, 2000), the very bright and philosophically astute Professor Peter Berkowitz of George Mason University Law School reviewed Eric A. Posner's interesting book, *Law and Social Norms* (Harvard University Press, 2000). Posner's book is essentially a rendering into economic language of the ethical and political issues of human life. Posner sets out to show that, using the tools of scientific economics alone (or even more narrowly, of game theory), we can explain why people act as they do. Why, for example, do people sustain their commitments to others even despite opportunities to "advance" their interests "by means of what game theorists call 'defecting' or 'opportunistic behavior,' and what ordinary people call lying, cheating, and stealing"?

The analysis by Berkowitz is insightful, largely setting forth, rather adeptly, often-heard complaints against economic reductionism. He explains that there is really more to ethics and politics, at their best, than merely the working out and following of narrow strategies for realizing what one desires in life. "In so far as we are small," he concludes, "game theory may explain what we do; but we are not only small."

Economists, like other social scientists, are always seeking some comprehensive and unitary explanation of human behavior, one that mimics the natural sciences, especially physics. What they want is surefire predictability of regular phenomena, a basic motive or drive to explain why people do what they do; and that explanation, once arrived at, is expected to be exhaustive. Usually the favored motive is the desire to prosper, even though the content of prosperity may vary tremendously from person to person, age to age, and region to region around the world. Indeed, just to make sure he covers everything, the economist tends to define prosperity as the getting of what one desires to get. Every sought goal is thus ipso facto an economic goal.

Posner proposes that the explanatory scheme he draws from economics and game theory can make complete, comprehensive sense of ethics and politics. Ethics and politics may not seem equivalent to straightforward economic thinking and behavior, but in fact they are just differing expressions of the same motivation: people do the right thing because it will get them what they want, fulfill their concrete desires, whether over the short run or the long run. Laws and social norms are but common practices that help us get our way; they are strategies for living. Actions that seem to supply evidence of moral commitment are really, according to Posner,

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just "behavioral regularities" undertaken "to show that they are desirable partners in cooperative endeavors. Defection in cooperative endeavors is deterred by fear of reputational injury. . . . People who care about future payoffs not only resist the temptation to cheat in a relationship; they signal their ability to resist the temptation to cheat by conforming to styles of dress, speech, conduct, and discrimination. The resulting behavioral regularities, which I describe as 'social norms,' can vastly enhance or diminish social welfare."

Plausible—as far as it goes. Certainly human action is purposeful, at least; we do pursue ends and deploy means to achieve those ends. But as Berkowitz observes, Posner seems not only to be rather gratuitously translating the "wisdom of the ages" into the language of economic theory, but also to be claiming, "With Machiavelli, that it is more important to appear good than to be good." A corollary claim seems to be that morality is either a mirage or, in Berkowitz's words, "at least a discourse that is reducible to something more fundamental and thoroughly nonmoral."

With deep moral commitment banned from the picture, so are its obvious incarnations; thus Posner, Berkowitz writes, can perform "the remarkable feat of writing an entire chapter on marriage and the family without ever mentioning love." His stance thus fails to capture the wealth of human motivations and, in the end, is vacuous. If what drives us is the desire to have our desires satisfied, we do not learn anything about why there are so many extremely varied desires "driving" people. It is an odd science indeed that offers the same alleged explanation for the bank robber as it does for the bank executive, for the thief as for the producer, yet that is just how the economic explanation of human behavior tends to go.

Where Is Immorality?

It is odd, too, that the economist's account of morality makes little room for immorality. One is invited to suppose that when people do lie, cheat, deceive, commit fraud, murder, rape, assault and such, somehow they have simply miscalculated or misjudged the proper strategy.

Posner's reductionist economics has no room for choice (except insofar as it is smuggled into the discussion in contradiction to the terms of that discussion). But a bona fide understanding of ethics and politics requires a recognition of the genuine choices that human beings confront. If one ought to be honest, it must also be true that one might be either honest or dishonest. If one ought to care for one's children, it must also be true that one might either care for them or neglect them. And indeed, we know well enough that just such is the case: lots of people act as they should and lots of others do not. But because this sort of economics, rational-choice theory, and game theory fail to take full account of morality and choosing, theoreticians like Posner wipe morality from the slate and reduce it to mere scheming. Even justice, on this account, can be broken down into what Socrates took so much trouble to argue against, namely, "the advantage of the stronger."

Such an understanding of ethics and politics also faces the problem of explaining why seeming to be good would ever matter to anyone, if the capacity to be genuinely good is but a myth enlisted for strategic purposes. If it is a myth that one can be invisible or levitate, what benefit is gained by someone who manages to feign such abilities (other than the limited entertainment value magicians cash in on)? There is none. But sensible people do believe in moral possibilities (they experience those possibilities themselves), and that is why faking moral fiber might at least briefly fool even those who would not believe in your power to levitate. Just as hypocrisy is the compliment vice pays to virtue, so pretending to be good is the compliment pretentiousness pays to morality.

Despite its critical acumen, Berkowitz's analysis of Posner fails to give an account of why economists have such a serious problem with ethics properly understood—that is, not as a strategic device but as a principled guide to action enabling us to live proper human lives. Interestingly, it is the father of scientific economics who may be called on to assist us

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in understanding this problem. In *The Wealth of Nations*, Adam Smith noted that even by his time, moral virtue had come to be regarded as disconnected from mortal happiness and the good life:

> Ancient moral philosophy proposed to investigate wherein consisted the happiness and perfection of a man, considered not only as an individual, but as the member of a family, or a state, and of the great society of mankind. In that philosophy, the duties of human life were treated of as subservient to the happiness and perfection of human life. But, when moral as well as natural philosophy came to be taught only as subservient to theology, the duties of human life were treated of as chiefly subservient to the happiness of a life to come. In the ancient philosophy, the perfection of virtue was represented as necessarily productive to the person who possessed it, of the most perfect happiness in this life. In the modern philosophy, it was frequently represented as almost always inconsistent with any degree of happiness in this life, and heaven was to be earned by penance and mortification, not by the liberal, generous, and spirited conduct of a man. By far the most important of all the different branches of philosophy became in this manner by far the most corrupted. (Random House, 1937, p. 726)

Smith saw that when morality, or ethics, is conceived along lines that would be fully realized in the work of Immanuel Kant—who denied that anything done to advance one's own cause can have moral significance—moral thinking cannot embrace the virtue of prudence, or practical wisdom. (Nor can *any* moral virtue be construed or justified, however broadly, in relation to the acting agent's own well-being and flourishing.) But prudence—recognized as a prominent virtue indeed in the ethics of Socrates and Aristotle—would make plenty of room for an ethical conception of most economic activity. While prudence may not be the highest virtue in human life, economic action is well understood as an expression of it (as well as of such virtues as honesty, integrity, and justice). With prudence expelled from the moral realm, however, all the economists can do to render commerce and business respectable is to collapse them, along with the rest of life, into expressions of near-bodily functions à la Hobbes (which is what, in the end, Posner does, and what Berkowitz finds so objectionable). If economic value-seeking were taken to be as morally legitimate as any other human endeavor, the economist would not be quite so tempted, whether in self-defense or for revenge, to strip morality from human doings and replace it with game-theoretic constructs instead.

If the mechanistic world view of many economists is in part a response to Kantian reworking of moral theory, the Kantian philosophy was itself an attempt to escape the dilemmas spawned by the metaphysics of mechanism. For Aristotle and other moral philosophers, self-development and flourishing were things a person had to exert his *will* to achieve; they were not automatic. And so the care of the self could be seen as a moral virtue, a chosen, effortful practice for which credit could be due. But when the notion gained prominence that human beings behave exactly like the rest of matter-in-motion in the universe, free will took a beating. Hobbes, a materialist of the highest order, spent a lifetime denying its reality; he debated the topic until the day he died. In its stead he posited a drive for self-preservation, something that seemed close enough to the deterministic motion of matter. Self-preservation, on this view, is directly impelled by antecedent causes; the acting agent has no real autonomous say in the matter; he can only submit. Obviously, such ineluctable submission cannot earn one any moral credit.

Kant could not accept this obliteration of moral responsibility. But in the process of salvaging the moral dimension of life, he didn't quite abandon the Hobbesian notion that we are all naturally driven by self-preservation. What he proposed was only that we can escape that natural drive and choose a different course of action—a moral course. If we will things impartially, utterly without regard to any personal drives or motives, and if we

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tear ourselves from a "dead insensibility" to perform an action "only from duty and without any inclination," our action is now morally praiseworthy. By this move, morality was "rescued," in a way, but rescued at the expense of relevance to individual life and flourishing. It is this kind of sundering that Smith was reporting, even before Kant's final "solution" arrived on the scene.

In their very different ways, Posner and Berkowitz each accept the pitting of morality against individual well-being. For Berkowitz, the shortcoming of the game-theoretical universe is that it "permits explanations of human conduct only in terms of rational self-interest." And it is true enough that we can act against our own interests (and also that we can act irrationally). But the more fundamental problem of the Posnerian universe is that it is premised on a too-narrow conception of self-interest, banning from its ken the moral values that can constitute and animate it. A rich conception of individual flourishing would surely embrace all the virtues of honor, integrity, commitment, and so forth. Prudent concern for self is not inherently inimical to any of these, nor to the heeding of the "promptings of conscience."

This isn't the place to address all the problems with the Kantian "solution" or with the scientism that lies behind the Hobbesian and Posnerian perspectives. Suffice it to note that a richer, more robust understanding not just of human affairs but also of reality itself—one that does not seek to reduce everything to just one thing—would go far to remedy matters. Such an understanding would also make ample room for the moral virtue of prudence and therefore for the task of every person to look after his or her prosperity. Economists can teach us a great deal about that, and can be proud of doing so. □

CAPITAL LETTERS

Liberty Dollar

To the Editor:

Lawrence H. White's focus on the difficulties of launching a competing currency and its minimum personal rewards are well known ("A Competitor for the Fed?" July 2000). So in response to such difficulties, NORFED's plan is simply to develop a currency owned by the people and built on the free enterprise system (FES). "When the People own the money, they control the government. When the government owns the money, it controls the People."

One of the greatest difficulties is that the new gold- and silver-backed ALDollar (American Liberty Dollar) did not clear through the fiat Federal Reserve System (FRS). For that reason a $20 American Liberty Check was issued on October 1, 2000. More than just a commemorative for NORFED's second anniversary, the ALCheck is a powerful, proactive, educational tool that carries the message "Free Our Money." More importantly, it is depositable into any bank.

FES vs. FRS. Which system will it be? Rejoice! NORFED's solution to our nation's manipulated government currency is simple and profitable: Stop using "their" money. Start using the Liberty Dollar and return America to value—one dollar at a time.

—BERNARD VON NOTHAUS,
Senior Economist
NORFED (www.norfed.org)

Compassionate Capitalism

To the Editor:

If Tom Palmer ("For-Profit Medicine and the Compassion Motive," October 2000) wants to generalize on the basis of a single experience at a nonprofit hospital, let me do the same with his article. Free-market proponents err in attributing to the economic system blame that properly should be laid on individual human character.

His conclusion, that compassionate care is more likely in a hospital motivated by profit, of course is plausible. But it is conceivable that what was perceived as "compassion" was

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artful pretense and not genuine concern. It may be that truly compassionate doctors and nurses are more comfortable working at a nonprofit institution. Until a study more credible than an anecdote is done to suggest otherwise, a more plausible explanation is simply that Palmer unfortunately found himself cared for by a jerk.

Of people with sour personalities there is no shortage, not in medicine, or law, or anywhere. There are caring doctors and nurses and there are cold doctors and nurses at all hospitals, because hospitals are staffed by people.

Indeed, the reality of medical economics and physician reimbursement is exceedingly complex. To simplistically dichotomize the situation as Palmer does makes his article read more like a fable than an instructive experience.

By the way, I would ask if the procedure done by the unconcerned doctor at the nonprofit institution resulted in pain relief. It could be argued that what the compassionate doctor owes his patient is skill and good judgment, not necessarily warmth and kindness, although these human qualities certainly are to be desired.

—MERRILL A. COHEN
York, Pennsylvania

Mr. Palmer replies:

Mr. Cohen raises some interesting points in his letter. First, I certainly agree—as I clearly stated in the essay he criticizes—that the sample size was too small to draw any robust conclusions. So we agree on that. What I tried to get across in my personal story was that the pursuit of profit can plausibly be tied to compassion, precisely because the profit-seeker must put himself or herself into the position of others in order to—as the British say—"gain their custom," that is, to make them into customers. That makes it a hypothesis, or a plausible candidate, for an explanation. And suggesting plausible candidates for explanations is not a bad thing to do. The hypothesis is that incentives matter. When we find that fairly consistently you get more courteous service at the local FedEx office than at the local Post Office and more concern for the value of your time at the car repair shop than at the Department of Motor Vehicles, we find a general pattern. Plenty of experience shows that incentives matter. I merely wanted to suggest that they may also matter in more areas than most people may currently believe.

As to whether a doctor's compassion is "artful pretense" rather than "genuine concern," I have no way of knowing. It also may not matter as an ethical matter. Recall that "ethics" is derived from the Greek word for "habit"; to be habituated into considering the feelings and interests of others when interacting with them is to become a better person. Character is not normally something you're just born with; you acquire it through experience and habit. Being habituated through incentives to take into account the feelings and interests of others will certainly have an effect on individual human character. So I reject Mr. Cohen's stark dichotomy between "the economic system" and "individual human character." Surely they are related, and that was all my essay was intended to suggest.

Mr. Cohen's final question is clear, but the suggestion that follows it is not. The answer to the question is that I did indeed enjoy an amelioration of my condition because of the injection I received at the nonprofit hospital. But the term "what the compassionate doctor owes his patient" is unclear. If Mr. Cohen is referring to the result of contract, it would be hard to contract for kindness. But how would it have diminished a doctor's efficiency to exhibit concern for my well-being as well? My vision of a good society includes not only material improvement, but warmth and kindness too. There's more to life than material goods, after all, and I believe it to be not only a reasonable hypothesis that capitalism nurtures kindness and concern for others but also a fact supported by mountains of historical evidence. Concern for others who are otherwise unknown to us is virtually unknown in societies that do not engage in trade, and as the range of trade has increased, so has the scope of philanthropy. And not only philanthropy, but also kindness to animals, which is virtually unknown in noncapitalist societies.

I'd wager that if you want a society characterized by widespread kindness and compassion toward strangers, you're more likely to get it with a free market economy. □

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IDEAS ON LIBERTY
DECEMBER 2000

How Many of You Are on Food Stamps?

"There is a strong case for reducing the role of the government budget in providing health services beyond a minimum."
—VITO TANZI and LUDGER SCHUKNECHT[1]

At the recent San Francisco Money Show, I asked an audience of several hundred investors, "By a show of hands, how many of you are on food stamps?" Not a single hand went up. Then I asked, "How many of you are on Social Security or Medicare?" A third of the audience raised their hands.

Finally, I asked, "How many of you think you will be on the food stamp program during your lifetime?" Again, not a single hand went up. But when I asked how many would eventually go on Social Security or Medicare, almost everyone raised his hand.

My point was simple. The food stamp program is a social welfare program limited to the very poor; there's a means test to qualify, and most Americans attending investment conferences don't need food stamps. On the other hand, Social Security and Medicare are universal social insurance plans. All people pay taxes for the programs, and at age 65 (sometimes earlier) they all collect benefits, even though most Americans can afford their own pension program and health insurance. Is there any wonder voters are more worried about Social Security and Medicare than they are about food stamps?

The following table shows the stark contrast between the food stamp program and Social Security and Medicare.

U.S. Social Welfare Systems

Program	Total Coverage (in millions)	Current Recipients (in millions)	Total Annual Expenditures
Social Security	180.0	44.2	$375 billion
Medicare	180.0	38.4	$215 billion
Food Stamps	19.8	19.8	$17 billion

Source: *Statistical Abstract of the United States* (Washington D.C.: U.S. Dept. of Commerce, 1999), Tables 173, 614, 616, 636. Figures for Social Security and Food Stamps are for 1998; Medicare for 1997, the latest available.

Why Not "Foodcare"?

Suppose the President of the United States proposes a new welfare program called "Foodcare." Since food is even more vital to each American citizen than health or retirement, he argues, the food stamp program should be expanded and universalized, like Social Security and Medicare, so that every-

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one qualifies for food stamps and pays for the program through a special "food stamp" tax. Congress agrees and passes new welfare legislation. Thus, instead of 19.8 million Americans on food stamps, suddenly 180 million or more begin paying the "food stamp" tax and collecting food stamps, representing perhaps 10 percent of household budgets.

What effect do you think this universal "Foodcare" plan would have on the food industry? Would we not face unprecedented costs, red tape, abuse, and powerful vested interests' demanding a better, more comprehensive "foodcare"? And suppose snacks were not covered by "Foodcare"—wouldn't the general public start demanding that they be covered by the government because their costs were rising too fast? Ludwig von Mises was right: "Middle of the road policies lead to socialism."[2]

Fortunately, there is no nightmarish "foodcare" program. Granted, there have been abuses and waste in the food stamp program, but the problems of efficiency are few compared to, say, Medicare. In fact, since 1995 the number of Americans on food stamps has declined from almost 27 million to under 20 million, and the costs have fallen from $22.8 billion to $16.9 billion.[3] Yet has the size of Social Security or Medicare declined? Never.

Safety Net or Dragnet?

The conclusion is clear. Government welfare systems—if they should exist at all—should be limited to those who really need assistance. They should be safety nets, not dragnets that capture everyone. It was a tragic mistake to create a Social Security and Medicare system where everyone at some point became a ward of the state. I'm convinced that if President Roosevelt had conceived Social Security in 1935 as a retirement plan for only the less fortunate who could not plan ahead financially, it would be a relatively inexpensive welfare program that would require taxpayers to pay at most 2–3 percent of their wages and salaries in FICA "contributions," not 12.4 percent as they do today. If President Johnson had proposed Medicare in 1965 as a supplemental medical/hospital plan limited to the needy, today taxpayers would be paying 0.5 percent of their wages and salaries to Medicare, not 2.9 percent as they do today. Instead, the systems were made universal, and the duplication is horrendous—and unnecessary.

Because we all pay in and we all benefit, we don't always think straight about these "entitlements." Example: A stockbroker recently told me about a client who called and complained bitterly about attempts by Congress to revamp Medicare. He angrily said, "They can cut spending all they want, but don't touch my Medicare!" While the stockbroker listened patiently to this man's tirades, he pulled up the client's account on his computer screen. He had an account worth $750,000! If anyone could afford his own medical insurance plan, it was this man. He didn't need Medicare. Yet he saw Medicare as his right. He had paid into it all his life, and he deserved the benefits.

Imagine what this man would be saying about Congress and food prices if we had "Foodcare." □

1. Vito Tanzi and Ludger Schuknecht, *Public Spending in the 20th Century; A Global Perspective* (Cambridge: Cambridge University Press, 2000), p. 201.

2. Ludwig von Mises, *Planning for Freedom*, 4th ed. (South Holland, Ill.: Libertarian Press, 1980), pp. 18–35. This argument applies equally to today's efforts to include pharmaceutical drugs in Medicare coverage.

3. "Federal Food Stamp Program, 1995 to 1998," Table 636, *Statistical Abstract of the United States* (Washington, D.C.: U.S. Department of Commerce, 1999).

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BOOKS

The New Anti-Liberals

by A. Alan Borovoy

The Canadian Scholars' Press • 1999 • 193 pages • $14.95

Reviewed by Thomas F. Bertonneau

Americans concerned about the inroads that political correctness continues to make into their lives would do well to look northward to Canada. The intrusive regime of moral reformation according to the left is about ten years more advanced there than it is in the United States. The situation permits us to see our probable future. So stifling indeed has the atmosphere of legal intimidation become in the land of the maple leaf that author A. Alan Borovoy, a lawyer long committed to so-called progressive causes, has found it necessary to challenge the trend. His book, *The New Anti-Liberals,* describes how, over the last 25 years, the program of advocating "social equality" and tolerance has been transformed into a campaign against those who dissent from mandatory dogma.

True to his roots, Borovoy says that "attacks on liberal values" came historically from "right-wing sources." Today, however, "a number of new constituencies have begun to attack liberal values." The book's table of contents makes it clear who these "new constituencies" are: feminists, racial and ethnic minorities, academics, members of the peace movement, and the federal and provincial governments—roughly the same constellation as south of the 49th parallel. In Borovoy's analysis, these groups initially pressed their claims legitimately in terms of "equal rights," but then, having secured their goals, they began pressing for what amount to privileges for themselves and a diminution of rights for others.

Feminism illustrates the way in which "promoters of equality . . . have gone off the deep end." Canada's first-generation feminists argued for and gradually achieved gender equality in the law, saw women elected to high public office and selected for the upper echelons of corporate management, and generally succeeded in persuading people that the feminist agenda was simply a manifestation of the broader social trend toward equality and dignity for all people, men *and* women. As these gains piled up, cracks began to open within the feminist coalition. "Numbers of feminists became increasingly hard-line in their political demands," Borovoy writes. In a characteristic incident, a well-known Canadian university president who had been outspoken in his support of the feminist agenda found himself stained by an accusation of racism. The accusers were a group of black women who claimed employment discrimination. In another case, the Canadian Civil Liberties Association, which was closely identified with feminist goals, came under denunciation by prominent feminists for being unduly "male" in its outlook and insufficiently sensitive to "women's issues."

Under the guise of further stigmatizing racial bigotry, a coalition of Canadian minorities succeeded in establishing a raft of "anti-hate legislation." Borovoy argues that such laws far exceed the goal of non-discrimination in the public sector, in protection of which, in any case, a bevy of laws already exists. "Anti-hate laws," he argues, are in effect infringements of free speech that corrupt the polity by smudging the line between words and deeds. They make hurt feelings, or worse yet the mere *claim* of hurt feelings, rather than physical tort, the cause for action and lead to a general fear about free expression.

The story of campus speech codes in Canadian colleges and universities parallels that of "anti-hate laws" in the Canadian polity at large. The difference is (as in the United States) that the codes are more fanatical in their stipulations than the laws. Proponents of the codes argue, in Borovoy's summation, that "there can be no meaningful speech without equality" and that in a society *presumed* racist, sexist, and so forth, certain *groups* require extra protection and increased dispensation in order to *be* equal. The codes will therefore invoke penalties against anyone who

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might utter anything *perceived* as demeaning by someone in a designated group.

To show the absurdity of such strictures, Borovoy cites the case of a pro-feminist law professor who assigned half his class the task of defending an anti-pornography law and the other half the task of arguing against it. A number of women who fell into the first category accused the professor of "sexual harassment." The administration failed to defend the accused; worse, it lectured him that "the way he had divided the assignment . . . could create serious distress for those who had to argue against their own personal opinions." Thus the sanctity of personal opinion trumps the rigor of how to make an effective forensic argument. "The lesson," Borovoy writes, "is clear: if you want to avoid having to worry about possible discipline, avoid controversy. . . . That's quite an outcome for an institution of higher learning to create."

Perhaps the most alarming chapter of *The New Anti-Liberals* is the one on "Governments and their Agencies." Borovoy here documents how deeply the attitudes of anti-liberalism have ensconced themselves in the federal and provincial bureaucracies. The provincial Human Rights Commissions regularly act on complaints as arbitrary and as shoddily motivated as the "sexual harassment" complaint against the pro-feminist law professor. The same commissions impose quotas in hiring and recruitment, and the linguistic authoritarianism in Quebec province is well known.

One could criticize Borovoy for making the assumption that the *original* welfare-state liberalism was as benign as he says. F. A. Hayek and Eric Voegelin, to name only two, have persuasively argued that the distortions of that liberalism, revealed in a tendency toward totalitarian management of individuals, were present in its inception. It is nevertheless encouraging that some "progressives," like Borovoy, have been pushed too far and now dare criticize those old allies on the left who formerly enjoyed exemption from judgment. □

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The Day of Deceit: The Truth About FDR and Pearl Harbor

by Robert B. Stinnett

The Free Press • 2000 • 386 pages + xv • $26.00

Reviewed by Bettina Bien Greaves

On December 7, 1941, the Japanese navy attacked the U.S. fleet at Pearl Harbor. The following day, President Roosevelt described it as "a date that will live in infamy." In spite of this country's official neutrality, Roosevelt personally had been eager to have the United States enter the war on the side of England. He had persuaded Congress to assist England with money, food, munitions, planes, ships, and Lend Lease, and by patrolling and convoying British ships in the Atlantic. These measures were intended, Roosevelt assured the people, not to take us into war, but to keep us out. Japan's attack, while we were still formally at peace and negotiating to settle various disputes, gave Roosevelt the excuse he wanted to ask Congress for a declaration of war.

When the President announced that the fleet had been attacked "suddenly and deliberately" by Japan, people believed him. Only after the war did the people discover that FDR's administration and top military officials had not been as surprised as they were: the U.S. government had been privy to many of Japan's intentions since mid-1940 when intelligence officers deciphered her top diplomatic code. Washington officialdom had been expecting aggressive Japanese action somewhere in the Pacific. Whether or not they were expecting the Pearl Harbor attack is another question.

For years rumors have circulated to the effect that Roosevelt knew that Japan planned to attack Pearl Harbor—and just let it happen. By far the most detailed and credible claim to date is contained in Robert Stinnett's book *Day of Deceit: The Truth About FDR and Pearl Harbor.* Stinnett is a Navy veteran of World War II who spent his life as a newspaper journalist and photographer. He argues that ample evidence was available to U.S. administration and military officials—

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through Japanese intercepts decoded and translated *before the attack*—to indicate that Japan was planning to attack Pearl Harbor. The Pearl Harbor commanders, Admiral Husband E. Kimmel and General Walter C. Short, would not have been surprised *if they had been properly informed.* Washington, however, chose to keep them in the dark.

Stinnett describes what appear to be three "conspiracies": the first to compel the Japanese to attack the United States and thus to bring us into World War II; the second to deprive the Pearl Harbor commanders of available information about Japan's intentions; and the third an attempt, which still persists, to keep pre-attack information from the public.

The first "conspiracy" began, Stinnett says, in October 1940, with a memorandum by Japanese expert Captain Arthur McCollum, chief of the Far Eastern Section of Naval Intelligence. The memorandum listed eight steps to induce Japan "to commit an overt act of war." First, the main strength of the U.S. fleet should be retained in Hawaii. This Roosevelt promptly arranged, over the objections of James Richardson, commander-in-chief of the U.S. fleet. Over the following year, McCollum's other suggestions were also adopted.

According to Stinnett, U.S. cryptographers had deciphered not only Japan's diplomatic code known as MAGIC, but also some of her military codes, enabling operators in U.S. monitoring stations around the Pacific to intercept and decode countless Japanese military dispatches. Significant information was received from these intercepts, Stinnett says, including the Japanese Task Force's last-minute choice for its staging area, its destination, and its attack order. But that intelligence was purposively withheld from the Pearl Harbor commanders.

On November 23, Kimmel, as the Fleet's Commander in Chief, had ordered, without White House approval, a search for Japanese forces north of Hawaii and had moved the Pacific fleet into the North Pacific. When White House officials learned of this and feared the fleet might encounter the Japanese attack convoy, Kimmel's ships were ordered back to Pearl Harbor. Also on November 25, the Navy in Washington told Kimmel to route all transpacific shipping southward leaving the north Pacific "vacant" and thus, according to Stinnett, open for the approach of the Japanese convoy.

Judging by the words and actions of Roosevelt and his advisers it is hard to believe that they were as sure as Stinnett indicates they were that the Japanese attack on Pearl Harbor, which they wanted, was imminent. For instance, at a meeting of Roosevelt's "War Cabinet" on November 25, secretary of war Henry Stimson remarked that "the Japanese are notorious for making an attack without warning, and the question was . . . how we should maneuver them into the position of firing the first shot without allowing too much danger to ourselves."

Even though Stinnett's case does not seem to me entirely convincing, he has certainly assembled a great deal of information previously unavailable. His book makes fascinating reading for anyone interested in the events leading up to the Japanese attack and the administration's subsequent attempts to deny responsibility and pin the blame on the commanders, who were not only deprived of vital military intelligence, but also were impeded in their efforts to gather it themselves. □

Bettina Greaves served FEE for more than four decades as a senior staff member and resident scholar. Now a resident of North Carolina, she is a member of FEE's Board of Trustees.

Power Grab: How the National Education Association Is Betraying Our Children

by G. Gregory Moo

Regnery Publishing, Inc. • 1999 • 337 pages • $24.95

Reviewed by David Kendrick

Consider these words of the late Albert Shanker, long-time president of the American Federation of Teachers. "It's time to admit that public education operates like a planned economy, a bureaucratic system in which everybody's role is spelled out in

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advance and there are very few incentives for innovation and productivity. It's no surprise that our school system doesn't improve: It more resembles the communist economy than our own market economy."

It might seem strange that the same man who so accurately described the flaws of government-controlled education could also cavalierly dismiss its victims when he said, "When school children start paying union dues, that's when I'll start representing the interests of school children." But as Gregory Moo points out in his book, *Power Grab*, it only makes sense for the bureaucracy to defend the taxpayer-funded government monopoly on education. "Monopolies that exist under law and receive funding through the taxing authority of governments—without regard to productivity—," Moo writes, "are breeding grounds for sprawling bureaucracies." Naturally, they put their own interests first.

Moo, a former school administrator, presents an inside view of how the National Education Association (NEA) has made itself into a "powerful private government." "When I was a high school principal," he writes, "I often commented [rhetorically] that the NEA was out of control. But the truth is otherwise." The NEA is in control, not of just the pay and working conditions of teachers, but also of "curricula, programs, personnel, policies, budgets, and children."

The tool by which the NEA has seized this power was pioneered by the state of Wisconsin, which in 1959 passed the first law forcing public employees to accept union bargaining authority even if they voted against union representation. Today, 34 states allow NEA officials to impose their monopoly bargaining power over all teachers in the public schools, amounting to nearly two-thirds of all government-school teachers. In 20 of those states, which account for more than half of all public school teachers, from California to Ohio to New York, they can also force teachers to pay union dues as condition of employment.

Moo focuses on the damage done by the witches' brew of compulsory unionism and government-run education. He has seen firsthand that the NEA union hierarchy "inhibits teachers' creativity and mischannels precious time and energy that teachers could productively invest in their teaching." Furthermore, contracts requiring the "maintenance" of working standards, for instance, become roadblocks to changing teacher schedules to accommodate changes in student enrollment, or changing teachers' room assignments to accommodate changes in class sizes.

Why don't principals try harder to keep out bad teachers? Moo explains that a recommendation against tenure must usually be defended before the local school board, where the NEA will aggressively attack the principal's competence, professionalism, and motivation. Evidence of the teacher's incompetence becomes virtually irrelevant. People who attend these hearings "could only conclude that the principal is on trial. . . ." The NEA's tactics deter most principals from sticking their necks out. But remember, only teachers pay dues.

What is to be done? Moo refutes halfhearted measures that would merely modify or otherwise "fix" government-sector monopoly bargaining. Instead, he calls for the repeal of state monopoly-bargaining laws and the elimination of mandatory union dues as the best way to establish policies that reward teachers for bringing out the best in students, as opposed to simply paying homage to the union.

With his years of experience as a teacher and administrator, Moo understands the realities of NEA hegemony far better than most other education writers. However, since he writes exclusively from his experience in government schools, it is not surprising that he leaves unquestioned the wisdom of putting government into the education business in the first place. Others, of course, have raised that question. Government institutions are inherently prone to political manipulation, and as necessary as it is to defang the NEA, I hope that something else will not simply take its place. □

David Kendrick is the executive director of the National Institute for Labor Relations Reform.

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Beer and Circus: How Big-Time College Sports Is Crippling Undergraduate Education

by Murray Sperber

Henry Holt & Co. • 2000 • 352 pages • $26.00

Reviewed by George C. Leef

Spokesmen for the higher education establishment can be counted on to do two things: first, to proclaim that America's higher ed system is the best in the world, and second, to plead for more government funding. Fortunately, there are naysayers on both counts, and it is especially interesting to find the occasional education "insider" who is willing to dissent from the orthodoxy.

Professor Murray Sperber is not opposed to government funding (he has been teaching English at Indiana University for almost 30 years), but can't stomach the canard that American higher ed is marvelous. In his view, undergraduate education is little more than an expensive joke at many of our "elite" universities, and in his new book, *Beer and Circus*, he explains why it is in an advanced state of decay. The book's subtitle identifies his villain-in-chief, but his story weaves together several strands. Also complicit are university administrators bent on achieving "prestige" status at all costs and faculty members who are so fixated on their own "research" projects that they treat undergraduate teaching as nothing more than a necessary evil. The triangle of athletic directors, starry-eyed administrators, and faculty members who try to avoid teaching has indeed made a terrible mess at many schools. (Sperber's school, Indiana University, is still reeling from the events surrounding the dismissal of long-time basketball coach Bobby Knight.)

Here's his conclusion: "[M]any universities, because of their emphasis on research and graduate programs, and because of their inability to provide quality undergraduate education to most of their students, spend increasing amounts of money on their athletic departments, and use big-time college sports—commercial entertainment around which many undergraduates organize their hyperactive social lives—to keep their students happy and distracted and the tuition dollars rolling in." I think he is right, but leaves out a crucial element, namely the pervasive dumbing down of education at the lower levels. More on that later.

Sperber has nothing against sports per se. The root of the problem is that many university administrators are not content to preside over an institution that simply teaches students. There isn't much prestige in that. No, what confers prestige (in the eyes of the higher ed community, anyway) is having a retinue of graduate schools and research programs. That requires hiring academic "stars" who will demand high salaries in return for doing a tiny amount of teaching but lots of research and writing. But moving into the ranks of the "research university" requires a lot of money. Perhaps some prodigiously wealthy alum will donate the funds, but the surest way to increase the inflow of cash is to expand the student body. That's where sports comes in.

Young Americans—men especially, women also but to a lesser degree—are big on sports. Many organize their lives around the offerings on ESPN and the networks. Schools with well-known football and basketball teams have a huge advantage in recruiting compared to schools that don't. Sperber recounts how applications at Boston College increased by 25 percent the year after the B.C. football team defeated mighty University of Miami in a nationally televised game in 1984. College administrators made the connection—winning big-time sports can lead to enrollment gains.

Thus many of the prestige-challenged universities went head over heels trying to build winning teams in the '80s and '90s. At some, the University of Oregon, for example, the gambit worked and sports victories led to rising enrollments. At others, like the University of Buffalo, it flopped. But win or lose, the impact on the quality of undergraduate education was bad: fewer decently taught classes in exchange for more of the "beer and circus" environment of team boosterism.

One of Sperber's most important chapters is on what he calls the faculty/student nonaggression pact. He explains that "Big-time Us handle their undergraduate education problem

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by establishing a truce between faculty who want to spend a minimum amount of time on undergraduate teaching and students who want to obtain a degree as easily as possible." The result is lots of fluff courses guaranteeing good grades (anything less than a B is courting trouble) for negligible work. Sperber says that the truce "short-circuits students' natural curiosity and desire to learn."

In a few cases that's undoubtedly so, but great numbers of students these days enter college just wanting to buy a degree without effort. Having gone through 12 years of schooling with low standards, they insist that college be a continuation of the self-esteem building. The "truce" is to be found not only at the big universities, but also at small schools with no sports or research.

Although *Beer and Circus* probably won't change the universities one iota, Sperber's exposé should cause a reassessment of the direction of higher ed in the United States. □

George Leef is the director of the Pope Center for Higher Education Policy at the John Locke Foundation and book review editor of Ideas on Liberty.

A Cure Worse Than The Disease: Fighting Discrimination Through Government Control

by M. Lester O'Shea

Hallberg Publishing • 1999 • 279 pages • $24.95

Reviewed by William H. Peterson

"America's constant curse."

So the British weekly *The Economist* brands racism long after the appearance of "affirmative action," the official policy unleashed by the Civil Rights Act of 1964 and designed to "correct" historical injustices by instituting preferences for members of certain "protected classes." This law and its legal embellishments blithely ignore the First Amendment guarantee of freedom of assembly, while outlawing discrimination on grounds of race, gender, age, disability, sexual preference, religion, or national origin. Far from eradicating racism, the government's policy actually reinforces it.

The goals sound lofty, but many writers have remarked on the impossibility of righting old wrongs when neither those who perpetrated them nor the victims are around. And even if the ends were good, are the means acceptable? That question is at the heart of this book, a tour de force of solid reasoning, honesty, and courage.

Lester O'Shea, a California entrepreneur and lawyer, contends that it is counterproductive to bring the full might of the state crashing down on people, business firms, or other institutions that ostensibly "victimize" blacks, women, the aged, the disabled, Latinos, gays, lesbians, and a host of other categories. Antidiscrimination laws necessarily mean substituting government power for individual judgment, and the result is unending litigation and bitterness.

In his foreword to the book, Professor Walter E. Williams sees government antidiscrimination laws and regulations as a zero-sum game that has bred a vast "multi-billion-dollar-a-year race industry . . . involving armies of lawyers, consultants, bureaucratic enforcers and compliance workers," one that "has divided the country and harmed the ostensible beneficiaries by spreading defeatism, dependency and resentment." O'Shea proceeds to make that indictment stick.

Consider, for example, the ludicrous 1970 U.S. Supreme Court decision that set the basis of racial quotas, *Griggs v. Duke Power*. The company had used racially neutral standards for employment qualification. For many jobs in the company, a high school diploma was a requirement. The plaintiffs complained that the high school diploma requirement was racially discriminatory because a higher percentage of blacks than whites had not finished high school. The High Court rewrote clear statutory law and held that racial discrimination could arise from unintended statistical differences between racial groupings in the Duke Power employment force. Duke Power was guilty of employment discrimination. With that decision, the idea that an employer had the right to set his own employment standards was eviscerated and "civil rights" lawyers went on a rampage looking for statistical disparities everywhere.

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As a result of *Griggs,* many firms and government agencies have taken to hiring to fill quotas with little or no regard to qualifications. While the demagogues of racial politics call it "progress," O'Shea is disturbed by the implications of lowering job standards just so we can say that minority group members are "rising" and we are becoming "more equal."

O'Shea is especially good at exposing the verbal and statistical trickery in affirmative action proceedings and behind such bugaboos as "institutional racism," "environmental racism," "mortgage lending bias," and "glass ceilings." It is vital to the affirmative action industry that it continually find new cases to fan the flames of resentment and make itself look important. Therefore, complaints are conjured up out of thin air.

Life is unfair, O'Shea acknowledges, but affirmative action only makes it unfairer still. He quotes Shakespeare's Hamlet, who protested "the whips and scorns of time/ The oppressor's wrong, the proud man's contumely . . . . "

The author's solution is far from the timid tinkering with affirmative action that is the norm among politicians: He would repeal the anti-discrimination laws altogether. If people want to pursue a "more equal" society, let them do so through non-coercive means.

So I wish America would move with all deliberate speed into a new era of a colorblind society in which Americans, to quote from Martin Luther King, Jr.'s speech at the 1963 Civil Rights March on Washington, "will not be judged by the color of their skin but by the content of their character." After reading Lester O'Shea's book, you will understand why getting there requires that we do away with the assault on freedom known as "affirmative action." □

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Vital Remnants: America's Founding and the Western Tradition

edited by Gary L. Gregg II

ISI Books • 1999 • 369 pages • $24.95

Reviewed by Wesley Allen Riddle

This book is a collection of essays that had their genesis in lectures delivered at a week-long conference on "America and the Western Tradition," in Colonial Williamsburg in 1998. The Intercollegiate Studies Institute (ISI) brought together some of the best students and college faculty in the country to explore the Western roots of the American constitutional order. Professor Gary L. Gregg, who holds the Mitch McConnell Chair in Leadership at the University of Louisville, has written a fine introduction and done a superb job in editing the ten well-crafted essays that make up the volume.

The various authors do not subscribe to the popularized notion that everything is relative; nor do they call true whatever happens to be useful in achieving political goals, whether conservative or "liberal"—including certain progressive constructions of history. Instead, they explain and reflect on the long tradition of Western civilization and culture of which America is part. As Gregg states in his introduction, "America is a multicultural nation because it is a Western nation and it is in that Western heritage that our values and our institutions find their roots and continuing vitality." The Founding generation also contributed to Western tradition and, in that sense, our inheritance is both Western and uniquely American.

In that vein, Wilfred McClay opens the collection with a question: "Is America an Experiment?" His is an interesting discussion, because the word "experiment" actually occurs in 24 of *The Federalist* papers. McClay uses the language of Washington, Hamilton, and others to demonstrate the degree to which the Founders believed America was "experimental." The connotations of their day reduce the spirit of radical experimentation substantially. Their "declaration of independence"

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was political; it was independence not from every stable arrangement, tradition, or given, and the states were to be "laboratories of democracy" only within very serious constraints.

E. Christian Kopff demonstrates the important influence the classics had on the Founding generation, though mediated by Christianity and American experience. To the extent we fail to understand a basic Western canon, including the classics and tenets of Christianity, we are distanced from our Founders' vision and philosophy. Indeed, Graham Walker contends in his essay that our constitutional order was grounded in Augustinian theology, which came to frame an American notion of common sense.

Robert George sees the Founders as dedicated to a natural-law understanding of politics, albeit one that did not necessitate judicial enforcement of principles not found in the Constitution. The Founders' natural law did not embrace expansive judicial review or judicial activism at the expense of legislatures and states. It meant, rather, that certain crucial aspects of human endeavor were not subject to political dictates at all.

Barry Alan Shain examines several understandings of the concept of liberty used in the eighteenth century. In every case, the notion of liberty is consistent with a Western, *communally based* understanding in which rights are married to responsibilities. To the Founders, liberty was restrained by moral purpose and "framed by traditional Anglo-American presuppositions of a divinely ordered universe in which the twin antitheses to liberty were tyranny and licentiousness." Donald Livingston agrees and takes issue with so-called Enlightenment politics. He shows that an alternate, "medieval" tradition espoused by Johannes Althusias and David Hume is actually the correct idiom for America's founding. The American constitutional order embraced divided sovereignty and recognized the legitimacy of independent social authorities, as well as the right to resistance.

Bruce Frohnen states the American Revolution was in fact a conserving war, which sought to re-establish the balanced constitution of post-1688 England. In this light, independence was hardly based on abstractions, nor was it a design to remake society. One such design, however, is examined by Peter Lawler. His concluding essay penetrates the postmodern attempt to create a therapeutic society. The therapeutic society is an American "experiment" divorced from actual history, not even rational in the Socratic sense. It seeks to produce universal prosperity and equality and to eradicate all human experience of unpleasantness.

Lawler brings the point home, but danger is implicit in all the essays, lest we sell our inheritance for the "pottage of the hour." This book aims to revitalize and to reappropriate select remnants of America's shared past, to call into question widespread cultural celebration of the unreflective approval of things new and "modern." For once we forget totally, all things are indeed possible—pernicious, as well as benign. The amnesia of our day is a dread and potentially deadly malady. *Vital Remnants* is tonic for it—and for postmodern reformulations against the principles of ordered liberty and truth of human existence that watchfully wait our sleep. □

Wesley Allen Riddle is fellow at the National Humanities Institute in Washington, D.C., and a correspondent for Fragments *magazine. His publications include* The American Political Tradition *(FEE, 1996).*

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IDEAS ON LIBERTY
DECEMBER 2000

Don't Fear Deficits

At current tax rates, barring a recession, the federal government will run large and growing surpluses during the next decade and beyond. Yet regardless of the identity of the new president or the character of the new Congress, we are certain to hear a great deal of talk in the coming months about deficits rather than surpluses.

Call it Ross Perot's legacy. He seems to have created a permanent fear of government debt and deficits within the hearts and minds of the American people.

This is quite an impressive achievement. Between 1970 and 1997, the federal government ran a deficit every single year. There were some good years and bad years over that time period, so why the fear of the deficit?

Between 1982 and 1996 the federal budget deficit exceeded $100 billion dollars every year. In eight of those years the deficit exceeded $200 billion dollars. During that time the American economy added over 25 million jobs.

During those years we listened to dire predictions of what those deficits were going to do to the economy. Sure, those Cassandras warned us, the economy is doing fine, but you just wait. You just wait!

We waited. Between 1982 and 1996, the economy got 50 percent bigger after taking account of inflation. But it's a house of cards, the worriers warned us! It's all going to come tumbling down.

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So now we've got surpluses. When is that house of cards going to fall apart? Are the effects of deficits so sinister that we have to wait even after the deficits have been reversed? Are deficits so insidious that their evil effects can be unleashed years and decades after the accumulated debt has been paid off?

I don't think so.

So why did we get away with it? Shouldn't those deficits have harmed the economy? Shouldn't they have driven up interest rates and stifled growth?

A federal budget deficit, if large enough, could harm the economy, but a deficit of $200 billion is "small" in a certain sense. It's hard to accept, but the budget deficits of the '80s and '90s had no appreciable effect on interest rates. In 1993, the first year of the Clinton administration, the deficit was $255 billion. In 2000 we are expecting a surplus of over $100 billion. But interest rates are higher than they were than when Clinton took office. They've bounced around. But there is no relationship between interest rates and federal budget deficits.

How can that be? When the federal government goes to borrow billions of dollars, shouldn't that drive interest rates higher? Isn't that what you learned in Economics 101?

Well, the poet (Alexander Pope) said a little learning is a dangerous thing. For an increase in demand to drive up prices it has to be a significant part of the market. If I decide to double my apple purchases, the price of apples will not rise. If the city of St. Louis doubles its

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demand for apples, there will be no significant effect on the price of apples.

When the U.S. government increases its demand for credit by $100 billion dollars, the effect is small in a world credit market that is many trillions of dollars.

There is another sense in which the U.S. budget deficit was small in the '80s and '90s. It was never so large as to alarm investors that we might not honor our debts. True, $290 billion seems like a large number. But the economy in that year (1992) was $6.2 trillion. The government collected over a trillion dollars in taxes. Were we spending more than we took in? Yes. But there was never a sense in which we were spending beyond our means.

A friend of mine asked me the other day whether the analogy of personal debt applies to the government. Isn't it bad to go into debt, to live beyond your means? Doesn't that burden future generations.

I asked him if he owned his house. Yes, he said. Had he paid cash or borrowed the money from the bank? He laughed and admitted he had borrowed the money.

What, I asked, in mock amazement? Wouldn't it have been better to save up money and pay cash? How could he saddle his family with a mortgage?

The right question is how big a mortgage. Sure, a mortgage can be so big that it is irresponsible. Sure, it's unwise to burden the family with mortgage payments that threaten its ability to pay for food, education, and health care.

But it would be just as irresponsible to plan to pay cash for such an expensive house by putting money aside every year, money that would be unavailable for food, education, and health care, just to avoid going into debt.

It's the size of the house that determines whether the family is being responsible or not, not how the house is financed.

And the same is true for the federal government. What the government spends money on is usually going to be vastly more important than whether it finances the spending via taxes or bonds. A boondoggle ditch-digging project that achieves nothing but is fully paid for by taxes is much more harmful than a sewer project that is paid for with bonds.

So let's ignore the forecasts of surplus or the dire predictions of doom if deficits reappear because of a tax cut. All those predictions are wild guesses anyway. Let's focus instead on the proper role of government and whether the money spent by government is spent wisely. □

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Prepared by Beth A. Hoffman and Mary Ann Murphy of the editorial staff of Ideas on Liberty

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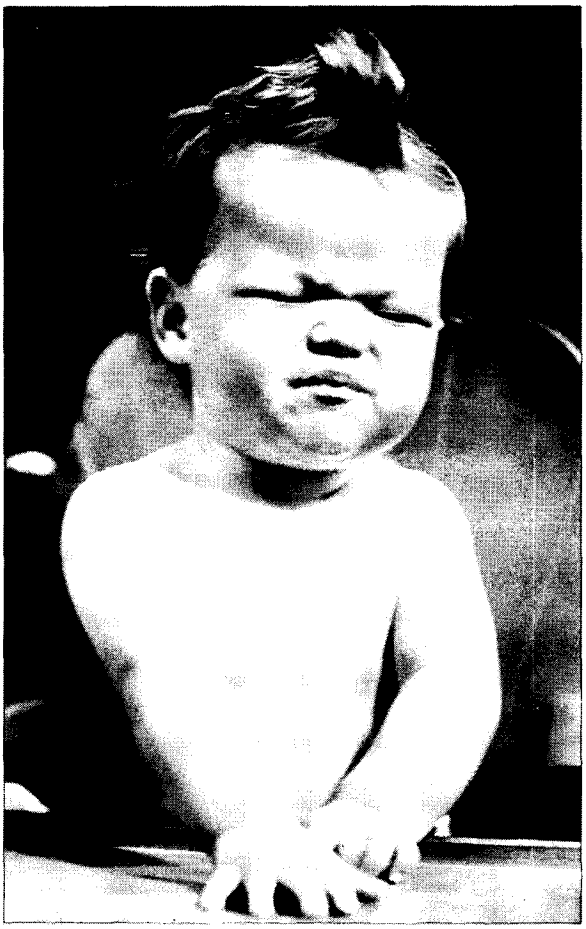

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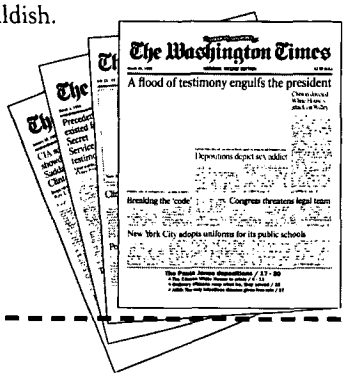
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